CHAPTER - I

INTRODUCTORY CHAPTER

Introduction; Importance of SSI in Indian Economy; Concept and Definition of Small-Scale Industry; Development of Small-Scale Industries in the Pre-Independence and Post-Independence period; Plan objective with special reference to SSI sector; Historical background of SSI in Assam and its role in Assam Economy; Present growth of SSI in Assam; Place of SSI in Assam's Five year plans and industrial policies;

Concept of Institutional Finance; Existing framework of Institutional finance in Assam;

Objective of the study; Hypothesis; Methodology; Plan of the study.
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INTRODUCTORY CHAPTER

Introduction:

It is now widely recognised that the small scale sector plays a very important role in the economy of less developed and developing countries. Small scale industries occupies a significant position in the economy of India, which is characterised with scarce capital, huge population, chronic unemployment and regional disparities.

Importance of SSI in Indian Economy:

The importance of small scale sector can be highlighted from the undermentioned points.

First, small scale industries are labour intensive. They can provide a helping hand to curb the burning problem of unemployment in India. They have already provided employment to nearly 10 million people of the country. Secondly, small scale sector requires less capital. As a developing country, India can easily expand the small scale sector investing less capital. Again small scale
sector helps to reduce regional imbalances which is a common phenomenon of underdeveloped countries. Small scale sector prevents the concentration of industries and economic power in a few hands or in a few places. Industries can be decentralised by setting more small scale units in different backward areas and thus the average standard of living of the people also can be raised. Besides, small scale sector maintains a healthy balance between the rural and urban areas. It can help to develop the agriculture based economy of Indian villages and can prevent the excessive flow of labour from rural areas to over crowded cities. In this way, it can be found that the small scale sector occupies an important place in bringing about socio-economic changes as well as economic growth in India as "they are not only instruments of change but vehicles of growth and diversification."\(^1\)

Therefore, it is no doubt "good to set up heavy industries spending Rs. 20 or 30 crores and giving employment to a few thousand people, but perhaps if the same amount is distributed in different States and different corners, a large number of people could be employed and greater industrial knowledge could be spread throughout the country."\(^2\)

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The importance of small-scale industries in India is shown in Table I.1.

Table I.1
Small-scale Industries in India

<table>
<thead>
<tr>
<th></th>
<th>1980-81</th>
<th>1989-90</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of SSI units</td>
<td>8.75</td>
<td>18.27</td>
</tr>
<tr>
<td>(in lakh)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Value of Production</td>
<td>28,060</td>
<td>1,18,210</td>
</tr>
<tr>
<td>(in Rs. crores)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Volume of Employment</td>
<td>71</td>
<td>119.6</td>
</tr>
<tr>
<td>(in lakh)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


This table reveals a rising trend of SSI in terms of number of units, value of production and volume of employment. Besides, small-scale sector occupies a remarkable place in export trade contributing Rs. 7990 crore in 1989-90, which was only Rs. 1643 crore in 1980-81.  

Concept and Definition of Small-scale Industry:

The concept and definition of small-scale industry differs from country to country. Generally, the definition of small-scale industry is based on criteria of -  

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(i) Number of workers employed,

(ii) Amount of capital invested,

(iii) Value of annual turnover etc.

In India, the first working definition of the small-scale industry was given by the Small-scale Industries Board in 1955 as "an unit employing less than 50 persons, if using power, and less than 100 persons without the use of power and with capital assets not exceeding Rs.5 lakhs." 4

In 1960, the same Board redefined small-scale industries as "small-scale industries will include all industrial units with a capital investment of not more than Rs.5 lakhs irrespective of the number of persons employed." 5

At the same time concept of 'ancillary industry' was introduced in the small-scale sector. This concept used to mean those industries which manufactured products for other industries.

The definition for the small-scale industry was modified again in 1966 extending the capital investment limit to not more than Rs.7.5 lakhs in plant and machinery. The ceiling was raised again to Rs.10 lakhs for small-scale

4. Desai, Vasant, - Management of a small-scale Industry p.4
5. Ibid. p.5
A new concept of tiny industry within the small-scale sector was included in 1977. This tiny industry will cover all the industries located in rural areas and small towns with a population less than 50,000 and with a capital investment of ₹1 lakh or less in plant and machinery.

Again, the ceiling on investment was raised to ₹25 lakhs for ancillary and to ₹20 lakhs for small-scale and to ₹2 lakhs for tiny units in 1980.

The current concept and definition of small-scale sector is as follows:

8. - SSI sector in the country has been redefined again in 1991 revising the investment limits on plants and machinery with the Government notification [Gazette No. S.O.232 (E) dated April 2, 1991] as proposed by the new industrial policy of 1990. Accordingly, revised investment limits of SSI and ancillary units will be ₹60 lakhs and ₹75 lakhs respectively. Again, with new policy measures for small, tiny and village industries, the Government has raised the investment limit on tiny unit upto ₹5 lakhs, irrespective of location of the unit (Laghu Udyog Samachar, April, 1991 and August, 1991)

As we have collected data upto 1990, earlier definition and concept of SSI sector has been treated as 'current' concept in our study.
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(i) "Small-scale Industries :- Undertakings having investment in fixed assets in plant and machinery only below Rs.35 lakhs.

(ii) Ancillary Industries :- Undertakings having investment in fixed assets in plant and machinery below Rs.45 lakhs.

(iii) Tiny Units :- Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.2 lakhs.

(iv) Small-scale service establishment :- Establishment/enterprises engaged in personal or household services in rural areas and towns with population of 5 lakhs or less and having investment in plant and machinery not exceeding Rs.2 lakhs."^9

Although small-scale industry generally means the modern industrial unit, it is hard to draw a distinction between traditional cottage industry and small-scale industry. The seventh five year plan clarifies the concept of the small-scale sector in the following manner — the village and small industries sector is divided into eight sub-sectors, viz. khadi and village industries,

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sericulture, handicraft, coir, small-scale industries and powerlooms, while the last two represent the modern small industries and other six sub-sectors constitute traditional industries.\(^\text{10}\)

The present study will cover those units as small-scale and tiny units that come under the above definition as the administrative department of the Government and institutional agencies including the commercial banks follows this definition for extending assistance to small-scale sector.

**Development of small-scale industries in the pre-independence and post-independence period:**

In India, small-scale industries such as handlooms and handicrafts have occupied a glorious place from the time immemorial. The earliest history of Indian civilisation, that is the Indus-Valley Civilisation shows the existence of weavers, gold-smiths, copper-smiths, potters etc. in India. The discovery of spindles, beautiful copper and earthen utensils shows that these were the important industries of that time.

\(^{10}\) Government of India, Planning Commission, Seventh Five Year Plan, Vol. 2., p. 95.
During the Vedic period, there were various types of artisans, such as carpenters, weavers, black-smiths and gold-smiths. The carpenter made carts, doors, windows, ploughs, chariots, boats and ship. The chariots were used in wars as well as in sports and the ships and boats were used in navigable rivers to carry goods and people from one place to another.  

Under the Magadhan Ascendancy, there were as many as 64 kinds of crafts and a large number of people were engaged in them. The goldsmiths of that period, were able to make artificial pearls by using an alloy of mercury. The important crafts were practised and developed in organised manner and there were twenty 'guilds'.

During the Mauryan administration, "there was a separate board of five members in the municipal committee to look after the development of Industry." The Greek traveller, Megasthenes also wrote about the fineness of Indian textiles, jewellery and other manufacturing industries of that period. Fahian, the Chinese traveller also wrote about the textiles, leather, ivoryworks, metalworks of the Gupta Emperors.

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Under the Mughals, cotton-silk weaving, carpet-making, jewellery, metal-work, ivory-work, perfumery etc. were the important industries. "The Mughal emperors encouraged production in the State Karkhanas (factories) where high quality goods were manufactured.  13

In this way, upto the early period of nineteenth century, Indian villages had a rich heritage of cottage industries. They produced their goods in a hereditary manner. The need of the villagers for those things were fulfilled by them and in that sense, Indian villagers were self sufficient. Similarly, the urban areas were also famous for various handicrafts. "There was the guild system in urban areas and those guilds were governed by their own rules". 14 Among the urban handicrafts, textiles - both cotton and silk were most famous. "There was hardly any city in India where cotton cloth was not manufactured." 15 Muslin of Dacca, dhoti and dopattas of Ahmedabad lungies of Ambala and Punjab, blue-palanpore of punjan cloth of Vizagapattnam, fabrics of Madras were very important among the cotton textiles. These were exported to other countries also.

13. Ibid. p.185.
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Different varieties of silk were produced in different places of India such as brocades in Benaras and Murshidabad, tsar sarees in Kashmir, Sambalpur, pat and muga in Assam, patola silk in Ahmedabad etc. etc. All these enriched the export trade of India.

Different places like Jaipur, Rajputana etc. were famous for embroidery, dying and design making. Woolen goods were also produced in Kashmir, Amritsar, Agra, Jaipur and were exported to other countries.

Gold and silver ornaments of fine quality were made in many places in India. Products made out of brass, copper, bell-metal, bronze etc. were also more popular at that time. Benaras, Hyderabad, Moradabad, Jaipur, Assam, Tanjore, Lahore, Nasik, etc. were some of the prominent places for various types of metal works. Likewise, many centres were famous for carving work in ivory, wood, stone and marble.

All those products were widely used by the people of our country and admired by the other countrymen, where those were exported. "The Indian Industrial Commission, 1918 reported that when merchants from the west came first to India, industrial development of this country was not
inferior to that of the then advanced European countries."\textsuperscript{16}

But, during the British era, these handicrafts had to face a number of difficulties. Towards the end of the 18th century, they started to decay rapidly. Disappearance of the native royal courts such as Nawabs, Rajas, who were the chief patrons of various artistic handicrafts, development of transportation and the Industrial Revolution in England, because of which machine made cheap goods made their inroad to India and created competition, etc. were the main reasons for decadance of the native handicrafts. The British Policy, which suited the factory based industries did nothing to protect the Indian handicrafts. Besides, "the British Government passed laws against the import and use of cotton and silk textiles from India and also imposed heavy import duties."\textsuperscript{17}

During the post-independence era, the significance of small-scale sector is adequately recognised through the Government's Five Year Plans and different Industrial Policy resolutions. Small-scale and village industries occupied a prominent role in the Gandhian - thought for economic freedom also.

\textsuperscript{16} Mukherjee S. and Mukherjee D. - Evolution of Indain Economy, p.4.
\textsuperscript{17} Fuste, J. and Mehta, I.R. - Indian History and Culture, p. 251.
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The industrial policy resolution of 1948 stated the importance of small-scale sector specifically in better utilisation of local resources of our country. It also stated that this sector can help in achieving local self-sufficiency in respect of certain types of essential consumer goods. Similarly, the industrial policy of 1956 recognised the significant role of small-scale industries in providing large employment, bringing more equitable distribution of national income and facilitating an effective mobilisation of resources.

Plan objectives with special reference to SSI Sector:

"We have specific place for these (SSI) industries in our national plan and we have no lack of good-will for them."\(^{18}\) Keeping specific place for SSI's, various objectives were outlined for the small-scale sector in our five year plans. Some of these objectives are the creation of more employment facilities with relatively less investment, removing of regional disparities, decentralising the industrial power, etc. To achieve these objectives, different strategies were undertaken in different plans.

Establishment of all India Boards\(^{19}\) during the first five year plan for the development of small-scale

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19. These Boards are "All India Handloom Board (1952), All India Handicrafts Board (1952), All India Khadi and Village Industries Board (1953), Coir Board (1953), Central Silk Board (1949 and reconstituted in 1952) and Small Industries Board."
sector, was one of such strategies. Besides the Government appointed some committees viz., the International Planning Team (Ford Foundation) in 1953 and the Village and Small-scale Industries Committee (Karve Committee) in 1955 for the development of small-scale sector. The Small Industries Development Organisation (SIDO) was also set up in 1954 under the Ministry of Industry to promote small-scale industry all over the country.

In this way, various organisations such as the State Directorate of Industries, Industrial Estates, Small Industries Service Institutions, various Training Institutions, District Industries Centres etc etc. were set up and a large number of developmental schemes were undertaken during the subsequent plan periods. Realising the importance of small scale industry, the Seventh Five Year Plan put more emphasis on the "improvement of production and quality and to reduce cost by upgrading technology and modernisation to optimise utilisation of existing capacities through supply of adequate inputs like credit, power, raw-materials etc. to expand share of VSI Product." 20 Recently as a "major policy initiative to give a new thrust to the small and village industries, a new department - 'the Department of small-scale, Agro and Rural Industries' was

Plan outlay has also been increased from a mere ₹.5.20 crore during the first five year plan to ₹.1120.51 crores in the seventh five year plan for this sector. Table I.2 shows the plan outlay for small-scale sector in India's various plans.

<table>
<thead>
<tr>
<th>PLAN</th>
<th>OUTLAY (₹. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Five Year Plan</td>
<td>5.20</td>
</tr>
<tr>
<td>Second Five Year Plan</td>
<td>58.80</td>
</tr>
<tr>
<td>Third Five Year Plan</td>
<td>113.06</td>
</tr>
<tr>
<td>Annual Plans (3)</td>
<td>53.48</td>
</tr>
<tr>
<td>Fourth Five Year Plan</td>
<td>96.19</td>
</tr>
<tr>
<td>Fifth Five Year Plan</td>
<td>221.74</td>
</tr>
<tr>
<td>Sixth Five Year Plan</td>
<td>616.10</td>
</tr>
<tr>
<td>Seventh Five Year Plan</td>
<td>1120.51</td>
</tr>
</tbody>
</table>

Source: Handbook of Industrial Statistics, Government of India.

This rising trend of plan expenditure on small-scale sector reveals the increasing importance of this sector in our National Plan.

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Historical background of small-scale industry in Assam and its role in Assam economy:

Assam, despite its rich natural resources, is one of the industrially backward States in India. "Assam, with the whole North-Eastern Region is categorised as 'A' class industrially backward areas by the Committee on Industrialisation in 1983." 22

But, against this present backward situation, Assam had a glorious past with various crafts like silk-cotton weaving, jewellery making, goldsmith etc. "Assam enjoyed a reputation as producing silk of a high degree of perfection. The Mohammedan historians noticed that the silks of Assam were excellent and resembled those of China. The three varieties of Indian silk generally known as pat, muga and endi are specially associated with Assam." 23 It is known that the Ahom kings had established a special department of weaving and maintained skilled weavers to supply the royal wardrobe with clothes. The royal families of Assam used to wear muga and silk clothes. These were the main items among the royal gifts to other kings or royal families. The weavers received grants of rent-free lands and other awards for their service. Both the silk and cotton clothes are

23. Baruah, B.K., - A Cultural History of Assam, pp. 93, 94.
produced in Assam till now. The Government with other organisations are also involved in this industry. Gold washing and manufacture of jewellery was another important cottage industry of Assam. The artisans known as 'sonowal's were used to extract gold from the sands of the river Brahmaputra and Subansiri and contributed thousand tolas of gold to the royal exchequer during the reign of different kings. "Gold is washed from the sand of the Brahmaputra. Ten to twelve thousand Assamese are engaged in this industry and they pay to the Raja's Government one tola of gold per head per year." 24 Gold, silver and copper ornaments were made by the Assamese goldsmiths which were famous outside the states also.

The ancient Assamese crafts includes cane and bamboo works also, from which various items like boat and other household furniture were made. "They make very nice and neat trays, chests, thrones and chairs, all carved out of one piece of wood.... They build war boats like 'Kosahs' of Bengal." 25

Both the past and present history of Assam is famous for brass and bell-metal crafts. Kahi, bati, lota, bhortal, sarai etc. are the different items of bell-metal

25. Ibid. p. 147.
and brass-metal utensils made by the 'Kahar's and 'Moriyas'. The jat-kahi made by 'Puspa Kahar', one of the bell-metal artisans of Sarthebari, which attracted the British queen Victoria, is still preserved in the British Museum.26

Black-smiths and potters are also the ancient artisans of Assam. Besides, making of various items along with ornaments from 'ivory' and 'buffalo-horns' were also notable Cottage industries of ancient Assam. A large section of Assamese people are still earning their livelihood through these crafts.

In the 6th century A.D. Hiuen Tsang recorded descriptions of Assam's handicrafts which he received as gifts from Vaskara Varma, the illustrious king of Kamrupa. "The exquisite quality and high order of craftsmanship with unparalleled beauty of Assam handicrafts were highly eulogised by Hiuen Tsang."27 In this way, different types of small but beautiful cottage industries were flourished in different parts of ancient Assam. The traditional handicrafts making places of Assam are shown in Annexure No.I.1.

26. Patowari, Minalmalla, an article on bell-metal industry of Sarthebari, Published in the 'Smritigrantha' (Souvenir) of Assam Co-operative Bell-metal Unensil Manufacturing Ltd., 1986, p.14.
Present Growth of SSI in Assam:

Besides these sophisticated traditional cottage industries, Assam's small-scale industrial sector now comprises a varieties of modern industries such as food, paper, textile, wood, chemical, engineering, metal, electrical and other products and service units and they are occupying a notable place in the whole North-East Region. According to data available with the National Institute of Small Industry Extension Training, NER, Guwahati, there are 12,784 SSI units in Assam as on December, 1990. Another data published by NEITCO shows that "there are about 19,000 SSI units in North-East Region, among the seven States. Assam accounts for 56 percent of the total SSI units." According to a report published on December, 1990, there were 15,135 small-scale industrial units in Assam with an employment generation potential of 46,302 persons, as against 5020 SSI units with an employment volume of 35,050 persons in 1979-80. The total number of small-scale units permanently registered with the Small Industries Development Organisation (SIDO) also shows a rising trend of small-scale

28. The Directorate of Industries, Assam, has prepared a list of various types of modern SSI which are stated in Annexure No. I.2.
units in the State. Table I.3 reveals this trend of small-scale units in Assam.

**TABLE - I.3 : GROWTH OF SSI IN ASSAM**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>4,162</td>
</tr>
<tr>
<td>1982</td>
<td>4,230</td>
</tr>
<tr>
<td>1983</td>
<td>4,878</td>
</tr>
<tr>
<td>1984</td>
<td>5,773</td>
</tr>
<tr>
<td>1985</td>
<td>6,543</td>
</tr>
<tr>
<td>1986</td>
<td>7,362</td>
</tr>
<tr>
<td>1987</td>
<td>8,565</td>
</tr>
<tr>
<td>1988</td>
<td>9,363</td>
</tr>
<tr>
<td>Upto June 1989</td>
<td>9,670</td>
</tr>
</tbody>
</table>

Sources:  
(i) Directorate of Industries, Assam.  
(ii) Annual Report(s), SIDO, New Delhi.

It can be observed from the table that the number of SSI units in Assam has increased by nearly three times during the period of 1981 to 1989 at an average annual rate of 17 percent per annum. Besides these units there are some non-SIDO units registered with the State Directorate of Industries. The District-wise classification of both SIDO & non-SIDO SSI units upto December, 1989 are stated in Table I.4.

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Barpeta</td>
<td>551</td>
</tr>
<tr>
<td>2. Cachar</td>
<td>1008</td>
</tr>
<tr>
<td>3. Dibrugarh</td>
<td>2605</td>
</tr>
<tr>
<td>4. Darrang</td>
<td>450</td>
</tr>
<tr>
<td>5. Dhubri</td>
<td>815</td>
</tr>
<tr>
<td>6. Goalpara</td>
<td>557</td>
</tr>
<tr>
<td>7. Jorhat</td>
<td>1319</td>
</tr>
<tr>
<td>8. Karimganj</td>
<td>405</td>
</tr>
<tr>
<td>9. Karbi-Anglong</td>
<td>182</td>
</tr>
<tr>
<td>10. Kokrajhar</td>
<td>361</td>
</tr>
<tr>
<td>11. Kamrup</td>
<td>2848</td>
</tr>
<tr>
<td>12. Nalbari</td>
<td>534</td>
</tr>
<tr>
<td>13. Nagaon</td>
<td>1429</td>
</tr>
<tr>
<td>14. North Lakhimpur</td>
<td>1008</td>
</tr>
<tr>
<td>15. North Cachar Hills</td>
<td>111</td>
</tr>
<tr>
<td>16. Sibsagar</td>
<td>499</td>
</tr>
<tr>
<td>17. Sonitpur</td>
<td>742</td>
</tr>
</tbody>
</table>

TOTAL: 15392

Source: Directorate of Industries, Assam.

It can be observed from this table that most of the SSI units are concentrated in Kamrup District followed by Dibrugarh. On the other hand, Karbi-Anglong and North Cachar are lagging behind having less number of units each.
In spite of these impressive figures of SSI units in the State, the second census of small scale industrial units, carried out by the Small Industries Development Organisation, New Delhi in 1990 with 1987-88 as base year brought out another picture of the growth of SSI units in the State. Accordingly, number of working SSI units in Assam stands at 4,430 as on March, 1988. These units provided employment to 34,475 persons i.e., 7.7 person per unit as against the national average of 6.3 person in the country. During the same period, the census reveals that the value of total production in these units are estimated at ₹302.35 lakhs i.e., ₹6.8 lakh per unit.

However, data published by the Directorate of Economics and Statistics, Assam shows a different figure of the growth of SSIs in Assam. Accordingly, the State had altogether 16,734 small-scale units during 1983-84, as against 12,056 units during 1980-81. The industry-wise classification of small-scale units of the State are shown in Table I.5. It can be stated here that Economic Survey after 1985-86, that is published only once for the year 1988-89 by the Directorate till now does not contain the number

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**TABLE - I.5 : INDUSTRY-WISE BREAK-UP OF SSI's IN ASSAM, 1983-1984.**

<table>
<thead>
<tr>
<th>TYPE OF INDUSTRY</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agro-based</td>
<td>2,853</td>
</tr>
<tr>
<td>2. Forest-based</td>
<td>2,066</td>
</tr>
<tr>
<td>3. Engineering-based</td>
<td>2,947</td>
</tr>
<tr>
<td>4. Chemical-based</td>
<td>345</td>
</tr>
<tr>
<td>5. Textile-based</td>
<td>2,232</td>
</tr>
<tr>
<td>6. Miscellaneous</td>
<td>6,291</td>
</tr>
</tbody>
</table>

Source: Economic Survey of Assam, 1985-86

Directorate of Economics & Statistics.

of SSI units of the State. Again, the data regarding the volume of employment, amount of investment, value of production in the SSI sector in Assam are not published by both the Directorates, which are available in other States with their relevant Directorates.

According to a Government document available with the Department of Planning and Development, Government of Assam, "by the end of 1987-88, it is expected that 12,975 SSI would be functioning in the State giving employment to over 1.20 lakh person with a production worth ₹36.29 crores." 33 Another information states that altogether 9379

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SSI units and 6891 handicrafts units were set up in the State by the end of the seventh five year plan, providing job to over 64,000 people.  From the above documents, we can imagine the employment potentiality of SSI units in Assam. According to the information available with the Chief Inspector of Assam, the total number of registered factories* in Assam has increased from 1897 in 1980 to 2567 in 1989. Besides, a large number of tiny-units have developed under the Khadi and Village Industries Commission Programme. Production Centres for bee-keeping, gur and khandsari-making, oil-extraction, etc. have widened to increase employment facilities in the rural area. Table I.6 shows the growth of Khadi and Village Industries in Assam.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>1982-83</th>
<th>1989-90</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of centres working</td>
<td>1321</td>
<td>7156</td>
</tr>
<tr>
<td>2. Value of production (Rs. in lakh)</td>
<td>571.08</td>
<td>1381.31</td>
</tr>
<tr>
<td>3. Total employment</td>
<td>66,216</td>
<td>90,972</td>
</tr>
</tbody>
</table>

Source: Statistical Hand Book, Assam.

The handloom industries also occupies an important place. The official number of whole-time and part-time

34. Data Bank: 1990, Published by the Economic Times, Calcutta, p.5.
weavers became 22,855 and 2,28,967 respectively at 261 weaving demonstration circles in Assam at the end of 1990. According to Government information, the State has nearly 6.84 lakh looms which provide employment to approximately 8 lakh people of the State. The same source states that at present, there are 19 endi spinning units, 26 mulbery reeling units and 15 muga reeling units in the State and more than 1100 staff is directly employed by the Government in sericulture. Another report says that the number of families engaged in sericulture in the State stood at 1,62,070 as on 1988-89.

All these village tiny units use traditional skills; hardly any machines are used by them, that is why they are known as 'crafts', rather than 'industries'. It is found that "nearly 80 percent of the SSI sector is covered by these tiny units in Assam." On the other hand although there is adequate scope for ancillary units, data shows only 34 small-scale units are functioning as ancillary units to medium and large-scale industries. It can be stated here that upto March, 1990, Assam had only 108 large and medium scale industries according to the sources available at the Directorate of Industries, Assam.

38. Directorate of Sericulture, Assam.
39. Recommendation of the 34th Meeting of the All India SSI Board, New Delhi. 1979.
40. Reserve Bank of India, Regional Office, Guwahati, A study Report on Industrialisation in Assam, Department of Economic Analysis and Policy.
Place of SSI in Assam's Five Year Plans and Industrial Policies:

Despite their glorious past and important role in Assam's present economy, the small-scale sector gets little importance in our five-year plans. The five-year plan allocations for SSI sector are stated in table I.7.

Table shows that the outlay for this sector has increased to ₹.50 crores in seventh five-year plan from ₹.9.64 lakhs during the first five year plan. However, it cannot be judged as sufficient as it indicates only a small

<table>
<thead>
<tr>
<th>PLANS</th>
<th>OUTLAYS (₹. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st plan</td>
<td>9.64</td>
</tr>
<tr>
<td>2nd plan</td>
<td>300.99</td>
</tr>
<tr>
<td>3rd plan</td>
<td>373.59</td>
</tr>
<tr>
<td>Ad-hoc plans (3)</td>
<td>121.92</td>
</tr>
<tr>
<td>4th plan</td>
<td>439.88</td>
</tr>
<tr>
<td>5th plan</td>
<td>1030.00</td>
</tr>
<tr>
<td>6th plan</td>
<td>3280.00</td>
</tr>
<tr>
<td>7th plan</td>
<td>5000.00</td>
</tr>
</tbody>
</table>

Source: Statistical Hand Books, Assam.
portion of the total plan outlay. For example, during the seventh five year plan outlay for SSI sector indicates only 2.5 percent of the total plan outlay, whereas agriculture gets 12 percent, irrigation and flood control gets 16 percent, social services gets 24 percent.

The first industrial policy of Assam was announced in 1969 and it put emphasis on small-scale sector, specially on ancillary unit as it felt that the peculiar geo-physical location, infrastructural backwardness, capital deficiency, limited market etc. were against the growth of large scale industries.

The second industrial policy of the state announced in 1982 was intended to benefit small-scale units; but in reality it was found to be discriminatory because the single-window clearance agency, the 'Udyog Vikash', was meant for the large and medium-scale industries only.

However, the industrial policy of 1986, offered a special package of incentives for the SSIs, which includes subsidies on infrastructural facilities, rental facility for factory-sheds, power generating sets, exemptions on stamp-duty on sale tax etc. on some conditional basis and thus theoretically keeps a special place for village and small-scale sector.
Chapter I Introductory Chapter

Concept of Institutional Finance:

"Institutional finance may be defined as financial accommodation of short, medium or long term nature, obtainable from conventional lending institutions such as commercial and co-operative banks on the one hand and special financing agencies such as various financial corporations and Governmental institutions on the other." 41

Institutional finance plays a very important role in stimulating industrial development of an underdeveloped country. Although there were small-scale industries with traditional cottage industries before independence, it was only after 1947, a considered policy had been adopted towards this sector. However, the channelising of funds to this sector was not considerable prior to 1956, when the pilot scheme of the State Bank of India to finance SSIs was adopted. It is only with the nationalisation of major commercial banks that SSIs have been recognised as one of the priority sector for bank finance. Before that "the usual source of credit available to small entrepreneurs are the indigenous bankers, moneylenders and friends and relatives. These non-institutional agencies give loans at relatively high rates of interest" 42. To discourage these

41. Narshimham, M., "Institutional set up- need for institutional credit" - an article published with the "Report of the proceeding of seminar on financing of SSIs in India. 1959., Vol. I. p.91.
non-institutional sources, a number of institutions have been created by the authority. "The network of commercial banks, co-operative banks, regional rural banks, state financial corporations and national small-industries corporation provide the institutional frame-work for financial assistance to small-scale industries.\textsuperscript{43} The Industrial Development Bank of India provides funds through its scheme of refinance."\textsuperscript{43} The existing frame-work of financial institution for the flow of different types of financial assistance to SSI sector in India are shown in Exhibit I.1

**Existing Framework of Institutional Finance in Assam:**

Almost all these institutions are working in Assam and provide financial assistance to SSI units. Commercial Banks\textsuperscript{*}, Assam Financial Corporations, Assam Small Industries Development Corporation, National Small Industries Corporation etc. are providing direct financial helps, whereas the Industrial Development Bank of India provides indirect financial helps. Besides, for the purpose of promotion and development of SSI, a large number of institutions are established. All these financial, developmental and administrative institutions are shown in Exhibit I.2


\textsuperscript{*} Bank-wise number of branches in Assam are shown in Annexure I.3.
EXHIBIT I.1: INSTITUTIONAL FINANCE TO SSI SECTOR

1) Commercial Banks
2) Co-operative Banks
3) Regional Rural Banks
4) State Small Industries Development Corporation(s)

Government → Working Capital

Subsidy & State Aid → Refinance

Industrial Development Bank of India (SIDBI)

SMALL SCALE SECTOR

Machinery

Term Loan

i) National Small Industries Corporation

ii) State Small Industries Corporation(s)

i) Commercial Banks

ii) State Financial Corporation(s)

iii) State Small Industries Development Corporation(s)

iv) Industrial Reconstruction Corporation of India
EXHIBIT I.2: FINANCIAL & DEVELOPMENTAL INSTITUTIONS FOR SSI IN ASSAM

1. FINANCIAL INSTITUTIONS
   - INDUSTRIAL DEVELOPMENT BANK OF INDIA
   - ASSAM FINANCIAL CORPORATION
   - COMMERCIAL BANKS
   - ASSAM SMALL INDUSTRIES DEVELOPMENT CORPORATION
   - NATIONAL SMALL INDUSTRIES CORPORATION
   - ASSAM HILLS SMALL INDUSTRIES DEVELOPMENT CORPORATION
   - SMALL INDUSTRIES SERVICE INSTITUTE

2. PROMOTIONAL AND DEVELOPMENTAL INSTITUTIONS
   - NATIONAL INSTITUTE FOR SMALL INDUSTRIES EXTENSION TRAINING
   - NORTH EASTERN INDUSTRIAL AND TECHNICAL CONSULTANCY ORGANISATION LIMITED
   - STATE DIRECTORATE OF INDUSTRIES
   - DISTRICT INDUSTRIES CENTRE
   - ASSAM AGRO-INDUSTRIES DEVELOPMENT CORPORATION
   - NORTH EASTERN REGIONAL AGRO-MARKETING CORPORATION

3. ADMINISTRATIVE INSTITUTIONS
   - SMALL INDUSTRIES DEVELOPMENT ORGANISATION
   - DEPARTMENT OF INDUSTRIES, GOVT. OF ASSAM
Although, there exists a number of institutions for the development of SSI in Assam, the present study will be primarily confined to the working of the Assam Financial Corporation and the Commercial Banks. So, detailed discussions on these two sources of finance will be done in successive chapters. However, a brief outline of other financial and developmental institutions will be presented wherever necessary.

**Objective of the study:**

The broad objective of this research project is to make a study on the credit problems of SSI units in Assam and to review the flow of credit to this sector from financial institutions, especially from the Assam Financial Corporation and commercial banks.

**Hypothesis:**

The present study is based on the following hypothesis:

1) SSI sector have been playing a very important role in Assam's economy.

2) Many of the entrepreneurs in the SSI sector depend upon the institutional sources for their necessary funds.
3) Flow of financial assistance from the commercial banks and the Assam Financial Corporation to the SSI sector in Assam are not adequate.

4) Irregular and inadequate credit flow from the institutional sources have hampered the growth and development of the SSI sector.

Methodology:

The above hypothesis are tested by analysing and examining the data and informations collected both from primary and secondary sources. In course of this study extensive use has been made of the Reports of the Committees and Commissions set-up by the Government from time to time. Reference has been made to numerous published and unpublished works on the SSI sector and also Annual Reports of various financial and developmental organisations. Personal contacts and interviews with concerned organisations have been carried out with the help of questionnaires prepared for the purpose.

Plan of the study:

The thesis contains eight chapters. The first chapter elaborates the concept of SSI and institutional
finance and their role in the development of the State.

Chapter II is concerned with the problems of SSI and policy guidelines taken by the authorities to do away with these problems.

Chapter III explains the capital structure, financial requirements of SSI's and co-ordination between the SFCs and commercial banks.

Chapter IV examines the role of AFC while Chapter V examines the role played by the commercial banks in the State including comparative study with all India position.

Chapter VI throws light on the working of other institutions in the field of small-scale sector of the State.

Chapter VII enquires the practical problems, financial needs and fulfilment of such needs by financial institutions through a field-survey.

The concluding Chapter VIII contains the summary of findings and suggestions to enlarge and improve the institutional credit flow to SSI sector in Assam.