CHAPTER – I

INTRODUCTION
Introduction

Employment generation is one of the major priorities drawing the attention of the governments and economic planners all over the world. India is no exception.

Employment generation has always been one of the main objectives of the policies aimed at economic development and growth of the nation. A rise in economic growth has always led to increased employment opportunities and similarly enhanced employment generation has always contributed significantly towards economic growth. However, identifying and creating employment opportunities has always been a challenging task in our country, the reasons for which are plenty and well known. More disturbing in this context is the realization that there has not been commensurate growth in employment vis-à-vis economic growth as demonstrated by the Gross Domestic Product (GDP) indicators over the past decade.

The expanding productive employment is central for sustained poverty reduction as labour is the main asset for majority of the poor. It is known that a high output elasticity of employment without sacrificing labour productivity generally ensures that growth is egalitarian. Employment generation has come to occupy the centre-stage in our development planning as well as implementation. All the Indian five year plans have viewed the generation of employment as a part of the process of development and have stressed a substantial expansion of employment opportunities as a major goal of planning.

India is primarily an agrarian economy. Agriculture is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture is the oldest profession of the people of India. It provides employment opportunities to more than 60 per cent of the total workforce and
account for 18.8 per cent of GDP, has been stagnating due to low investment, yields, lack of credit inflow and faulty infrastructure².

At the time of independence, widespread poverty, rapid growth of population, unemployment, under-employment of industries, backwardness of agriculture, the very old land tenure system, inequalities in the distribution of income and wealth were some of the important causes for Indian poverty. And all these causes were interrelated. Among all these causes underemployment and unemployment are the most important ones. There is a wide gap in per capita income between developed and developing nations. This is largely reflected in the disparities in the economic structures.

Presently, India is a developing economy. Though its natural resources are vast, they are either unutilized or underutilized. This is due to our over dependence on agriculture. As agriculture is a seasonal occupation, a major section of the manpower, which is too plentiful is lying idle (remains unemployed or under employed). Moreover the traditional and out dated techniques or methods of agriculture are resulting in low agricultural yield. Because of low yield and widespread unemployment and underemployment, the basic needs of sizeable section of the population always remain unfulfilled³.

Indian economy has experienced a long term average annual growth rate of over two percent in employment. In itself it is not a mean achievement. Not many national economies have in fact maintained such rate of employment growth over long periods. Besides, for about three decades since 1950, growth of GDP itself has been rather slow at an average of about 3.5 per cent per annum and employment could obviously have not grown more rapidly, as growth takes place both through increase in productivity and expansion of employment. A slower growth in employment that in GDP is thus not a surprising phenomenon nor should it be a matter of anxiety in an absolute sense. In the Indian
context, the anxiety on the employment front arises from the fact that the labor force has been growing faster than employment; and thus even with a reasonably high rate of employment growth at 2 per cent per annum, backlog of unemployment has been increasing from year to year, due to an increase of about 2.5 per cent per annum in the labor force. In recent years, anxiety has got somewhat heightened because of slow down in the employment growth: the average employment growth during 1983-1987/88 has been only 1.55 per cent annum, though GDP grew at over 5 per cent annum during this period.

India is currently facing a massive challenge of employment generation. In India, 1092.83 millions are total population during 2004-05 and the same year labour force constitutes 419.65 millions and the employment is only 384.91 million in India. This gratifies the fact that the employment growth rate is not reaching the population growth.

The details in this regard are shown in the following table 1.1. The explains the employment and unemployment indicate that employment growth during 1999-2000 to 2004-05 has accelerated significantly compared to the growth witnessed during 1993-94 to 1999-2000. During 1999-2000 to 2004-05, about 46 million work opportunities were created compared to only 25 million during 1993-94 and 1999-2000 period. The same period the employment growth accelerated from 1.25 per cent per annum to 2.62 per cent per annum. However, since the labour force grew at a faster rate of 2.84 per cent than the employment, unemployment rate also rose. The incidence of unemployment increased from 7.31 per cent in 1999-2000 to 8.28 per cent in 2004-05. The main reason of the
increasing unemployment rate is the growth rate of the labour force which is more the growth rate of employment.

Table 1.1.
Employment and Unemployment in India (In Million)

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<tr>
<td>1</td>
<td>Population</td>
<td>718.10</td>
<td>893.68</td>
<td>1005.05</td>
<td>1092.83</td>
<td>2.11 1.9 1.6</td>
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<td>2</td>
<td>Labour force</td>
<td>263.82</td>
<td>334.20</td>
<td>364.88</td>
<td>419.65</td>
<td>2.28 1.4 2.8</td>
</tr>
<tr>
<td>3</td>
<td>Employment</td>
<td>239.49</td>
<td>313.93</td>
<td>338.19</td>
<td>384.91</td>
<td>2.61 1.2 2.6</td>
</tr>
<tr>
<td>4</td>
<td>Unemployment rate (per cent)</td>
<td>9.22</td>
<td>6.06</td>
<td>7.31</td>
<td>8.28</td>
<td>- - -</td>
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<tr>
<td>5</td>
<td>No. of Unemployed</td>
<td>24.34</td>
<td>20.27</td>
<td>26.68</td>
<td>34.74</td>
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The decline in overall growth of employment during 1993-94 to 1999-2000 was largely due to the lower absorption in agriculture. The share of agriculture in total employment dropped from 61 per cent to 57. This trend was continued to the share of agriculture in total employment further dropped to 52 per cent in 2004-05.

So, in Indian Economy, which is marked by an abundance labour and scarcity of capital, the imperative of judicious utilization of scarce capital resources to provide large scale employment to teeming millions of people is more than obvious. In other words, accelerating industrialization is the only answer to the present state of disrupted economy.

Industrialization is _sine qua non_ of economic progress. The objectives of industrialization are high growth rates, employment generation and equitable distribution of income and wealth. The effect of it is to raise the per capita income and standard of living of the people of any country. The third world countries are trying to solve their endemic problems of poverty, inequality and unemployment through a systematic
process of industrialization. The development experience of past indicates that industrialization has played a crucial role in over all economic development of any country. Countries with rapidly growing industrial sectors have been able to manage the development problems particularly employment, poverty and income levels effectively than those countries in which industrialization, lagged. Thus, there is a world wide acceptance to have industrial development as legitimate objective to solve their economic and social problems.

Industrialization plays an indispensable role in the developing countries to increase incomes of the people which leads to higher standard of living that results to further industrialization plenty of resources available internally alone cannot speed up industrialization, proper use of available resources should be there. In most of the developing countries the rate of industrial growth is poor not because of lack of natural resources but only due to under utilization of the available resources. In a developing economy like India where capital accumulation, technological knows how are relatively at a low level, there is a need for rapid industrialization of the regions depending upon the availability of natural resources. A suitable combination of labour intensive and capital intensive techniques are to be incorporated in the process of industrialization. A pressing problem in India is how to transfer the surplus labour engaged in agriculture to other sectors of the economy. Rapid industrialization is the ultimate solution for this problem. But, industrialization is the through large scale industries may not solve the unemployment problem to a marked level. Hence, the strategy of industrialization must aim at utilizing both local resources and skills to diversify the employment structure and to create high incomes for further development. This can be achieved through the development of small industrial units which have high potential for employment generation with less capital.6.
Small industrial units play a vital role in the industrialization of developing country like India. This is because of the reason that they provide immediate large-scale employment and have a comparatively higher labour capital ratio. They need a shorter gestation period and need lower investments and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.

Small industrial units played a key role in the industrialization of a developing country and have assumed importance not only for their contribution to the economy by way of creating employment but also for the special patronage they enjoy from the government small industrial units have a vital role to play in the process of liberalization by providing a vehicle of entrepreneurship to flourish. It also has been valuable entry points for new entrepreneurs, who can start small enterprise and then grow by small industrial units are also instrumental in achieving a broader regional spread of industries. Since small industrial units are more employment intensive in terms of per unit of capital than the large scale industries they are also a source of the much needed employment. Small industrial units played an important role, especially in promoting non-farm employment in rural areas.

Small industrial sector occupies a pivotal role in India’s development process therefore, it is considered as the backbone of the Indian manufacturing sector. In other words, Small industries does not mean that the sector is small in terms of its contribution to the economy. In fact it acts as a major force for the economic development in majority of developed and developing nations.

Many courtiers which are in the developing stage have witnessed a successful growth of small enterprises and India, is no exception in this regard as it is reaping gains from small industrial units in terms of employment for the teeming millions, high industrial production and
sizeable export promotion. The small industrial sector constitutes a progressive and efficient decentralization system, which is closely integrated on the one hand with agriculture and on the other with the large scale sector.

The second five year plan of India emphasized the role of small industrial units and village industries on the grounds that they contribute significantly to the generation of employment opportunities, equitable distribution of national income, mobilization of capital, development of entrepreneurial skills and removal of regional disparities of industries.

The small industrial sector is more responsible for human resource development in business organization to increase the capabilities, competencies, efficiency and effectiveness of human resources and to optimum utilization of available resources in organization.

Small enterprises, in wider sense refers to small units engaged in processing manufacturing, preservation, repairing and servicing activities, as well as activities such as mining, quarrying, construction, production and distribution of electricity, water supply and various other self-employment avenues in different sectors of the economy. What makes the small industries to differ from the large industries is the scale of operation, which can be distinguished by the number of persons employed and the amount of investment in terms of fixed assets other than land and buildings. The broad set of small enterprises consist of further categories like village and small industries, traditional and modern industries, factory and non-factory units, registered and unregistered units, organized and unorganized sectors and so on.

The small industrial units have acquired prominent position in the economic structure of the country. The contribution of the sector both towards the economic development and removal of economic disparities among cross section of the society has been tremendous. The sector as
of today, in the country, produces about over 8000 different items for domestic as well as foreign market. The sector contributes about 40.00 per cent of the value added in the manufacturing sector 34.00 per cent of national exports, 7.00 per cent of Gross Domestic Product (GDP)\textsuperscript{12} and provides gainful employment to about 294.91 lakhs persons through its various constituents.

The small industry has emerged as a dynamic and vibrant sector of the Indian economy in recent years. During the period 2005-06, it is estimated that there were 123.42 Lakhs of registered and unregistered small industrial units in the country. During the period the average annual growth in the number of units was around 4.1 per cent and in employment 4.3 per cent annually\textsuperscript{13}. In Andhra Pradesh, during 2005-06, 1267 small industrial units are established with employment for 15,832 people in valuing an investment of 245.37 crores respectively\textsuperscript{14}.

The small industrial sector contributes amply to other socio-economic aspects such as reduction of income inequalities, production diversification dispersed development of small industries and linkage with other sectors of the economy.

**Importance of the Small Industrial Units:**

India is a developing country most of the people living below the poverty line. They are physically weak and their working capital is also low in many developing countries and many resources are relatively abundant. The major advantages of small industrial units are as follows:

- Small industrial units facilitate the tapping resources. These resources include entrepreneurship, capital labour, and raw materials. They can mobilize rural savings.
- Small industrial units create more employment opportunities at a relatively low capital cost. In India there is basic problem providing additional employment opportunities for the growing population.
- Small industrial units facilitate substantial foreign exchange savings and earnings.
- They serve the developing economy not only by their output of goods but also by functioning a nursery of entrepreneurial and management talent.
- The establishment of small industrial units makes it possible to reverse the current trend of the migration of the people from rural to urban areas.

**Review of literature**

Over a period of time small industrial sector has generated employment interesting results. A few studies are available to understand the process of small industrial units development and provide employment. Gaps exist in the earlier studies and hence there is need for bridging these gaps. The following are the important studies completed on small industrial units.

The industrial policy resolutions of 1948 and 1956 highlighted the importance of small industrial sector in the generation of additional employment opportunities with lower capital investment. Raj (1956) revealed that the value added per employee in the large sector is no doubt around double that in the small industrial sector has been around six to seven times higher than the organized sector.

The Karve Committee depicted that small industry has been helping in providing employment and in moving towards decentralized society. The industrial resolution of 1956 stressed that some of the problems that unplanned urbanization tend to create, may be avoided by the establishment of small centres of industrial production all over the country.

One of the earliest studies on the relative efficiency of small industrial units in India was undertaken by Dhar and Lydall (1961). They compared output-capital ratios for a number of reasonably
homogeneous industry groups, each depicting size variation. They concluded that modern small industry is fairly capital intensive; that is, these units do not generate more employment per unit of capital than large-scale industry. Dhar and Lydall also found that units pay lower wages to workers and usually concentrated in large, urban areas. They concluded that small industrial units were less efficient as compared to large scale industries and thus there was no case for giving preferential treatment to modern small industry.

Staley and Morse (1963)\textsuperscript{20} in their study suggested that small industries can contribute significantly to economic advancement provided they attempt to modernize technology, make appropriate product selection and have good management.

Report of the Ford Foundation Team (1963)\textsuperscript{21}, dealing with Indian Official Programme for Development of small scale units felt that instead of favouring small firms, the aim should be to remove their disabilities and encourage them to modernize and grow into least-cost sized units.

Similar findings were reported in the studies of Hajra and Sandesara Hajra (1965)\textsuperscript{22} used the Census of Manufacturing industries (CMI) data for seventeen industries for 1955 and 1958. Comparing partial productivity ratios between large and small industrial units, he came to the following two conclusions: (i) both labour and capital productivities are low in small industrial units (suggesting, thereby inefficient use of material input).

Using the CMI data for twenty eight industries for the period 1953-58, Sandesara (1969)\textsuperscript{23} undertook a comprehensive study of the relationship between size and various important ratios like the capital labour ratio and the output-capital ratio. In his work, a positive association was observed between size and the output-capital ratio supporting the conclusion earlier reached by Dhar and Lydall.
Sandesara, however, did not find any positive association between size and capital per employee. His findings suggest that, for a given volume of investment, small industrial units neither generates more employment for produce more output compared to large scale units.

Since the findings of Dhar and Lydall, Hajra and Sandesara are in conflict with the conventional view of small industry, an explanation for the observed positive relationship between size and output-capital ratio is called for. To provide an explanation of their findings, Dhar and Lydall pointed out that the modern small industrial sector is very different from the traditional small industrial sector, which uses family labour and produces traditional products. Modern small scale factories, on the other hand, employ hired labour and use modern machinery to produce modern goods. They are mainly located in urban areas. They get their materials (like steel and chemicals) from far-off places and sell their products widely. They are just like big factories, except that they are small in size and thereby deprive themselves of economies of scale, professional management and multiple shift utilization. Sandesara also sought the explanation of his results in economies of scale and better managerial ability of the entrepreneurs in large scale units. In his words, 'our results suggest that large units are possibly headed by entrepreneurs who more efficiently combine factor of production-capital and labour. The crucial factor, which could explain our results, may well be the factor of enterprise.

In the studies of Dhar and Lydall, Hajra and Sandesara, employment was taken as the size criterion. This was questioned by Mehta (1969)\textsuperscript{24}, who pointed out that the classification of factories based on employment does not show the productivity level of small industrial units properly, since sick or ailing large scale units employing only a skeleton staff or new units undergoing teething troubles may get classified in the small size group. For his analysis, Mehta used the
Annual Survey of Industries (ASI) data for thirty-two industries for the period 1960-63. He compared capital-labour output and output-capital ratios among 'small', 'medium' and 'large' factories classified according to fixed assets and between the census sector and sample sector factories classified according to employment. It was observed in Mehta's study that in almost all cases, the capital-labour ratio rises with size and the output-capital ratio falls with size.

The conflict between the findings of Mehta and those of Dhar and Lydall, Hajra and Sandesara is somewhat baffling. This cannot be attributed to differences in the time period covered in the sources of data. The differences in findings may partly be explained by the while Dhar and Lydall, Hajra and Sandesara used tool productive capital (fixed plus Working) for measuring capital input, Mehta used fixed capital. Since the ratio of working capital to fixed capital is high in Small Industrial Units, efficiency comparisons based on fixed capital favour small industrial units.

According to Dhandekar and Rath (1970)25 there are three questions which must be asked and answered before one accepts labour intensive technology as the most suitable employment oriented strategy of industrialization (i) does the adoption of a labour intensive technology, which is also a technology with low labour productivity, enable a persons to earn a minimum desirable living (ii) is it a feasible solution in the sense of one which can be maintained in the face of economic forces operating in an economy in which the means of production are privately owned? (iii) if the solution is perform maintained over a period, does it create conditions for progressive economic development or is there a danger of its leading into conditions of stagnation?

Tandon (1977)26 is of the view that any industrial orientation strategy should not only aim at providing jobs but also should aim at maximizing output, conserve foreign exchange and improve the
distribution of income. Therefore, he felt that though in the initial phases of development the traditional and intermediate technology would work in the final stage modern and sophisticated technology alone should serve the purpose.

Nag (1978) 27 in his study on “Growth of small-scale sector- An assessment” reviewed the functioning of the small-scale sector and brought to light the growing mortality of small industries. He urged the public sector to rescue the small-scale sector in the larger interest of many skilled and unskilled people employer in various enterprises. A large role of the public sector in the form of direct participation in entrepreneurial activities seemed essential for ensuring the balanced growth of the industry in future.

Rao (1979)28 emphasized that technical assistance which is the most important item in the programme of small industry, aims at providing complete technical services to small industrial units so as the upgrade the level of technology, increase their productivity and waves, impart knowledge about the use of proper raw materials, improve the quality of goods produced and thus strengthen the competitive position of the small industrial units.

According to Khan (1979)29 an entrepreneur is not merely the founder of his firm but also the fountain head of policy and growth. Entrepreneur is a decision maker and an actor in economic events. The entrepreneur has typically been cast in the role of a rational man who makes optimal choices in an environment of very limited and highly specified dimensions. The closure of an industrial unit involves heavy cost to the society; it renders idle its manpower, lays waste scarce financial and material resources invested in land and buildings machinery and equipment, inventories and stocks30.

Mishra (1979)31 a small scale ancillary unit is defined as one which produces parts, components, sub assembles and tooling or renders 50
per cent of production for supply against known or anticipated demand of other units and the investment in plant and machinery which is not excess of Rs. 25 lakhs.

Ho (1980) calculated total factor productivity for the different size classes in each Korean Industry. The results obtained by him are: Out of 138 industries, 88 show greatest efficiency of factor use in the range 50-500 employees. Thirty-two are best below 50 workers, of which 7 are in the class of 5-9 workers. Eighteen are best in the range 500 or more workers. The rather few industries where small enterprises show up as the most efficient are also rather small industrial units in terms of employment. For instance, the 16 industries in which enterprises with less than 100 workers account for half or more of the industry employment, and where the apparently most efficient size is 50 workers or less, account for only 7.3 per cent of total factory employment.

Jha (1980) in a country where capital is scarce and manpower is going to waste, the plea or relying much more on labour intensive techniques of production that on those which necessitate heavy capital outlays is entirely sound. He, therefore, advised proper appreciation of the role of the technology for improving the productivity of labour, which he considered to be as important as the provision of new jobs.

Tulsi (1980) concluded that the scheme with it defective feature of providing benefit to all small industrial units unequally which shows it as improper method of providing incentives, the reason being since different small industrial units incentives, the reason being since different small industrial units were subject of different incidence of excise duty, those which bear high rate of excise duty would enjoy the larger benefits and those which carry the excise duty at quite a small rate should receive smaller benefits.

The World Bank Staff working paper on “small industry in developing countries- some issues” (1982) by Dennis, Anderson
analyzed the evolution of the manufacturing activities by firm size in the process of industrial growth distinguished different but not strictly distinct phases. In this scheme the initially predominant household industries declined continuously, small factories and workshops emerged at a rapid rate to displace them and eventually the large factory production became dominant. The rates of transition from household to factor based manufacturing could greatly differ between sectors and industries.

According to George (1982) emphasized that small industrial sector in general look for direct attacks on poverty and labour under utilization but those are unlikely to be successful without radical change in the ownership of the means of production after the industrial revolution.

Rama Krishna Sharma (1982) who made a comprehensive study on growth and problems of small scale sector in Andhra Pradesh observed that the backward districts of the state improved their relative position in terms of units, employment and capital between 1966 and 1975. He felt that majority of small units are facing problems of raw material and finance.

Page (1984) investigated the relationship between firm size and technical efficiency in four manufacturing industries of India, namely, Printing, Machine tools, Soap, and Shoes. The sample firms are drawn from a purposive sample survey of manufacturing units conducted during 1979-81. The financial and economic data refer to the 1979-80 financial year. The bulk of small and medium units are drawn from enterprises located in or near Bombay, Calcutta and Delhi. Large firms are drawn from all regions of India. In effect, the sample has a limited geographical spread. A Translog production function in four factors, namely, capital, skilled and unskilled labour and material is fit to the survey data by linear programming method. The technical efficiency
measured as the ratio of actual output to potential output is found to range from 42 per cent in shoes to 69 per cent is in Machine tools. Consequently, page interprets the estimates of technical efficiency as indicating substantial scope for improvements in the total factor productivity of firms in the sample.

N. Thanulingom's (1984)\textsuperscript{39} study on small scale engineering industries in coimbatore region explained the inter-relationship of the small-scale engineering industry with the large-scale engineering industry. It examined the problems arising out of the inter-relationship between the small industrial units and the rest of industry. According to him the factors which influenced the entrepreneurial development were previous occupation in industry favourable demand for their products, location new he residence of the entrepreneur and previous employment as a worker in a large-scale unit.

According to Nagaraj (1985)\textsuperscript{40}, the plausible reasons for the relatively higher profitability in small industrial units seems to be the lower wages and greater exploitation of labour on the one hand and fiscal concessions on the other.

Patvardhan (1985)\textsuperscript{41}, in his study relating to Maharastra felt that majority of small scale units faced mainly problems such as inadequacy of working capital credit flow banks and marketing.

According to Mohanty (1986)\textsuperscript{42} depicted that small industrial units depend on advance order for carrying on production. This dependence has been more in case of engineering, electrical, chemical and forest based industries than in case of others. Mohanty Further revealed that the proportion of skilled labour to total employment is generally high in small industries except in case of agro and marine, and mineral based industries, which indicates the importance of training institutes in the expansion of small industries.
Using data presented in Annual Survey of Industries for 1960, 1963, 1964 and 1965, Asher (1987) shows that the small industrial sector is more efficient. His study shows that the small scale factory combines the largest number of workers with a rupee's worth of fixed capital; that a rupee worth of fixed assets produce almost seven times an output in small as compared to large industries and that the value added by a rupee worth of fixed investment in small factories is at least three times as large as that for a large factory.

Sarkar and Mukherjee (1987) examined the direct and indirect dependence of small industrial units on organized large scale forms from three regions viz., Calcutta Municipal Corporation, Howrah Municipal Corporation and the rest of urban Municipal area coming under the jurisdiction of 37 other municipalities form the basis of the study. It is found that the growth of small enterprises is not critically dependent on one single big enterprise.

In his paper published in 1988, Bishwanath Goldar compares for 37 industries at the three-digit level the technical efficiency of Small and large-scale industries for the year 1976-77. He presents estimates of relative labour productivity (relative efficiency) of the modern small industrial units. Goldar finds that the small industrial units (compared to the large-scale industries) generally have low labour productivity, high capital productivity, low capital intensity (measured as capital per employee) and low total factor productivity. He infers that the modern small industrial sector is inefficient relative to the large sector in a large number of industries. He also finds that the relative efficiency of the small industrial units varies directly with capital intensity, so that the small industrial units cannot be relied upon as a source of efficient employment generation.

Hina Sidhu in his study revealed that the relative importance of small industrial sector in employment generation had
increased over a period of time. The other findings of the contribution of the large-scale sector to employment in the household industries, a decline in the contribution of the large-scale sector to employment generation, a substantial contribution by five industry groups namely, chemicals, non-metallic mineral products, basis metal, metal products and machine tools to employment generation in Gujarat and inadequate evidence on the application of the stylized model in Gujarat as the structural changes in the industrial sector we accompanied by rater emphasis on the small-industrial sector.

Ganguly(1988) studied the performance, policies, problems and prospects of the small industrial sector in spite of vigorous efforts being made to promote the small industrial sector as a matter of conscious policy decision, the small industrial sector does suffer from, certain problems such as inadequate availability of raw materials, inadequacy of financial assistance, lack of effective marketing and encroachment of the areas reserved for small industrial sector by the medium and large scale sector etc.

Sandesara (1988) reviewed the Indian experience of promoting small industry over the last four decades, base on official reports and empirical studies. The industrial sector grew faster relative to other activities but within this, the slower growth of the small industrial as compared to the large scale industries has meant a declining share of the former within industry. In the small industrial sector, the more modern and large factories grew factor than the traditional and smaller ones.

Kaveri (1990) concluded that small industrial sector has acquired greater importance in Indian economy. In term of employment generation, this sector is next only to agriculture and accounts for about one fourth of the total exports of the country. The importance of small industry in the Indian economy was recognized at the beginning of the plan period itself. Various policy measures were taken over the years to
promote employment and investment in this sector. The various agencies set up by the government and the financial institution have been rendering consultancy services mainly technical consultancy to the small industry\textsuperscript{50}.

A volume edited by Rao and nagaiah (1991)\textsuperscript{51}, is a compilation of article covering various aspects of small scale industries such as the new official policy, incentives, programmes made under five year plans, organizational support, role of IDBI, infrastructural planning and sickness and contains suggestions for strengthening small scale sector.

According to Subbaraman (1991)\textsuperscript{52} job generating capacity of village industries can not be over emphasized. Unemployment breed poverty and it can be eradicated by spreading the network of village industries in every nook and corner of the country.

Small and cottage industries have an important role in India's industrial development. It has been estimated that they contribute about fifty per cent of gross value of output originating in the manufacturing sector. These industries are established, \textit{inter alia} to create immediate and permanent employment on a large scale at relatively small costs to ensure equitable distribution of the national income to effect decentralization of the industries by creating industrial estate and to raise the standard of the people\textsuperscript{53}.

Sarma and Diwan (1994)\textsuperscript{54} felt that the government has put in sustained efforts in terms of monetary and fiscal instruments, infrastructure development support, technological support, industrial estate and clustering to assist the development of healthy and dynamic small industries. It is pointed out that entrepreneurial culture is required for the development of this sector.

Das Gupta (1994)\textsuperscript{55} emphasized that management of the resources available within an organization is the best and the cheapest way of arranging resources. In this regard, small industrial units should pursue
with the suppliers for extending their terms of payment which helps. Such arrangement should be made ahead of the time when the additional credit will be needed. Similarly, customers can often be persuaded to finance a large order, ensure part payment with the order also through progressive payment as the job proceeds. A better inventory management ultimately leading to just in time system of management of inventory would release a substantial amount of funds to the small industrial units for utilization in higher yielding avenues.

"Emerging industrial policy reforms: Implications for small size enterprises" (1995) by SP. Kashyap observed that the small industrial sector helped in generation large scale employment, wage foods and incomes in a fairly dispersed manner, and in mobilizing dormant skills and resources. It also enhanced entrepreneurship, energized village economies and aided that process of backward area development. It played and important role in the overall process of industrialization and economic development.

Jeans in his study (1999) suggested that, instead of supplying equipment and designs, if the government can introduce them into local business environment from which small producers could master new technical and organizational skills this strengthening their ability to introduce other products and process innovations indigenously.

Robin Mukherjee, Pranab Kumar Bhattacharya (1999) in their study attempted to examine the growth performance of small industrial units in West Bengal over the last 25 years. For this purpose, alternative growth rates were calculated for the number of small industrial units as well as for employment for each district. Broadly speaking the alternative measures of growth rate presented the same picture.

M. G. Basavaraja (1999) in his study on "Role of small industries: A study of Karnataka" stated that the small industrial entrepreneurs should collectively fight for a swadeshi movement and try to create public
opinion in favour of indigenous goods. In Karnataka there were about 2,36 lakh registered small industrial units with a capital investment of about 3,000 crores. They manufactured more than 8,000 items. The total output was estimated at about Rs. 20,000 crores per annum. Nearly 39.00 percent of the exports from Karnataka were being made by small industrial units.

According to a report of the Planning Commission, small enterprises, which cover a large part of the service sector, has to be targeted for generating desirable high level of employment with limited capital investment.

Joseph Xavier, S. (2000), conducted a study on the contribution of commercial banks in the development of small scale industries in Tirucharapalli district, Tamil Nadu. The performance efficiency of SSI units was studied with the help of financial ratios with a view to analyze whether financial assistance from commercial banks had helped them to improve their networth and profit.

According to Narasimham (2002), the small industrial sector certainly has an important role to play in the economy and a proactive policy that is aimed at providing infrastructure and encouraging technology development and marketing would have a greater chance to succeed because of the present policies of reservation and subsidization.

A case study conducted by Rana Bijoy Deb (2004) on employment generation in small units opined that rural-based industrial units have proved to be more efficient in generation of employment with low involvement of capital as compared to their urban counterpart. Also the stronger units with higher investment in fixed and working capital generate more employment.

**Need of the present study:**

The most pressing need of many developing countries of the world today is for a rapid industrialization so as to achieve quicker economic
and social progress. Small industrial units have occupied an important place in the planned process of industrialization in India economy as they can be easily dispersed over rural and economically backward areas and can help in raising incomes and giving employment generation.

Small industrial units have been playing an important role in the provision of standard of living facilities in human life through the employment generation. An attempt is made to evaluate the performance of employment generation provided by the small-scale industries. There is an urgent need to accelerate the development of employment generation, especially, in a backward region like Anantapur district in order to raise the living standard of the people.

**Statement of the problem:**

The small industry has been recognized as one of the most appropriate means of developing the industrial economy of backward countries. They are fairly labour intensive, small industries which create employment opportunities at a relatively low capital cost in India, there is a basic problem of absorbing the surplus manpower in non-agriculture jobs and providing additional employment opportunities for the growing population.

Small industrial units contribute significantly to the strengthening of the industrial structure. They serve the developing economy not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent. The small industrial units lead to the creation of employment opportunities as a dispersed basis not only in large cities and towns but also in smaller towns and far-flung regions.

The development of small industrial sector has been importance in India because the small industrial units require less capital outlay and the same time it provides more employment than the large-scale sector. A small industrial sector does not require highly sophisticated technology. So it will be more useful in backward areas.
Anantapur district is located in the southern part of Andhra Pradesh. It is one of the industrially and economically backward districts identified by the Government of Andhra Pradesh. The main livelihood of the people is agriculture. For the past several decades, there has been failure of rains in this region. As there is no prospect of agriculture in this district, people have stated move to neighboring districts, particularly to Karnataka areas to eke out their livelihood.

In view of this prevailing situation, the unemployed educated youths are evincing interest to establish small industrial units with the help and assistance of scheduled Banks, State Finance Corporations etc. The Government of Andhra Pradesh has announced several incentives to entrepreneurs who want to start small industrial units. The establishment of small industrial units is best suited to this district in view of the availability of raw materials from agriculture and mineral based and other industries. The establishment of small industrial units will be a boon to the people of Anantapur district to lift the people above poverty line. The small industries, inspite of encouraging entrepreneurs, generates employment opportunities to the needy. The pivotal role of District Industries Centre (DIC) in advising the enthusiastic entrepreneurs to move forward to achieve their goal is highly commendable.

The burning problem facing the Government is how to solve employment. As we know, the Government alone cannot start or declare war against unemployment, the unemployed educated youths should take positive interest in establishing small industrial units in support of the Government efforts, to solve this unemployment problem.

The large scale industry is urban based. It has resulted in the neglect of agriculture and industry in the rural areas.

Hence an attempt is made to have a micro level study on the Employment Generation through small industrial units in a drought prone
district like Anantapur and to bring to the notice of the authorities concerned about the strategic location of the district and the need to accelerate the pace of Employment Generation through small industries in the district. These are some of the important factors that prompted the selection of Anantapur district for the evaluation of small industrial units.

**Objectives:**

- To analyse the development of small industrial sector in India, Andhra Pradesh and Anantapur District.
- To review various policies, schemes, incentives of the government to develop small industrial sector.
- To examine the role of small industrial units in generation of gainful employment in Anantapur District.
- To identify the problems of small industrial units, especially in drought prone district like Anantapur.
- To suggest measures for the development of small industrial units to create more employment opportunities in the district.

**Hypotheses**

- There is no significant growth of small industrial units in Anantapur district.
- The development of small industrial units failed to generate gainful Employment in Anantapur district.
- The existing environment in Anantapur district failed to solve the problems of small industrial units.

**Methodology**

The study is based on secondary and primary data. Primary data have been collected by canvassing the pre-tested schedule. For this purpose the researcher consulted the small industrial units owners who have established industrial units in the district.
For administrative purpose, the district of Anantapur is divided into three revenue divisions i.e., Anantapur, Dharmavaram and Penukonda. In an attempt to obtain a representative study one mandal from each revenue division has been randomly selected for the collection of primary data. In all, three out of 63 mandals were selected for the study.

The mandals that have been selected from the Anantapur revenue division are: Anantapur mandal; Hindupur from the Penukonda Revenue Division; and Dharmavaram from the Dharmavaram revenue division.

The small industrial units in Anantapur district registered with the District Industries Centre are broadly classified into seven categories. The seven categories of industries are namely 1) Agro-Food based industries 2) Forest based industries 3) Chemical based industries 4) Engineering based industries 5) Textiles based industries 6) Mineral based industries 7) Other industries.

The study covers 12970 small industrial units which were setup to function till the end of March 2006 with the District Industries Centre in Anantapur district. The primary data have been collected by canvassing a schedule from each of the sample mandal for the purpose of recording the responses. In all, 300 sample industrial units accounting for 2.3 per cent in each category of the total has been selected for the purpose of primary data collection in the rural and urban areas. The numbers of small industrial units drawn from each category are: 63 Units in Agro-Food based industrial units; 28 Forest based industrial units; 7 Chemical based industrial units; 26 Engineering based industrial units; 43 Textiles based industrial units; 92 Mineral based industrial units: and 41 from among the ‘Other’ category of industrial units.
**Collection of Data**

The study on small industrial units are collected both from primary and secondary data. Primary data has been collected by way of consulting 300 sample small industrial units holders which has been spread over three Mandals in three Revenue Divisions in the district.

This primary data has been collected directly with the help of schedule through the interview method for collection of information about small industrial units.


**Tools used in the study**

Based on the objectives of the study, appropriate statistical tools like, percentages, averages and linear growth rates and ‘t’ test have been applied to know the effectiveness of Employment Generation through Small Industrial Units in Anantapur district.

**Chapterization**

The present study is divided into eight chapters

The first chapter deals with the introduction, Review of Literature, Need and Importance of the Study, Objectives, Hypotheses, Methodology, and Limitations of the study.
The second chapter describes the role of Small Industrial Units, the developments in plan periods, incentives and schemes, sickness, national committees on small industrial units in India.

The third chapter describes the role of small industrial units and incentives on small industrial units in Andhra Pradesh. It also describes district-wise structure and growth of these industries in the state.

The fourth chapter presents a brief industrial profile of the study area, the details relating to the large-scale and small industries during 1996-2006, and their level of investment, employment and other initiatives offered by the government etc.

The fifth chapter analyses the growth and development of small industrial units by category wise in Anantapur district of Andhra Pradesh. It also describes mandal-wise structure and growth of these industries in the district.

The sixth chapter, an important one, is devoted to enquire employment generation through the selected small industrial units, output generated, cost incurred, profits earned etc., in Anantapur district.

The seventh chapter identifies and analyses the problems faced by the selected small industrial units relating to the procurement of investment, raw-material, power, required labour skills and marketing of the products produced in Anantapur District.

The chapter eighth summarizes the findings of the study offers suggestions for the development of small industrial units to create more employment opportunities in backward areas like Anantapur district.

**Limitations of the study**

The present study is confined to Anantapur district. The secondary data cover 10 years period only. The data relating to the small industrial units are confined to the period from 1995-96 to 2005-06 and data are collected from the secondary sources such as the Action Plans of
Anantapur district and the records available in the office of the General Manager, District Industries Centre. It is found that these data differ from one source to another and sometimes from the same source for different years.

This study is based on the survey of selected small industrial units belonging to seven categories are represent the employment generation through small industrial units of different categories in Anantapur District. The number of selected sample units from the seven categories of industries in Anantapur district is shown in the below Table 1.2.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Category of Industries</th>
<th>Total Small Industrial Units</th>
<th>Selected for survey of Small Industrial Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agro &amp; Food-based industries</td>
<td>2731</td>
<td>63</td>
</tr>
<tr>
<td>2.</td>
<td>Forest-based industries</td>
<td>1250</td>
<td>28</td>
</tr>
<tr>
<td>3.</td>
<td>Chemical-based industries</td>
<td>295</td>
<td>07</td>
</tr>
<tr>
<td>4.</td>
<td>Engineering-based industries</td>
<td>1146</td>
<td>26</td>
</tr>
<tr>
<td>5.</td>
<td>Textile-based industries</td>
<td>1878</td>
<td>43</td>
</tr>
<tr>
<td>6.</td>
<td>Mineral-based industries</td>
<td>4000</td>
<td>92</td>
</tr>
<tr>
<td>7.</td>
<td>Other-based industries</td>
<td>1670</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12970</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>
References:


10. ‘Human Resources Development practices in Small Scale Industry under Globalize regime’ (2006); An empirical study, Monthly Public opinion surveys (The Indian Institute of Public opinion), Book-610, V-21, No-10, P-18, July.


60. The Planning Commission had constituted a special group “Targeting Ten Million employment Opportunities per year over the Tenth Plan Period”.

