Chapter - I

INTRODUCTION
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Industrialization is a process in which changes pertaining to a series of strategical production functions are taking place and economic gains of industrial progress are continuously created. Its resultant effect is to raise the per capita income and standard of living of the people in any country. A higher standard of living implies that more of industrial goods flow into the consumption basket of the people. The net economic impact of industrialization must travel down intimately to the maximum number of people. Industrial advancement of any country is the main factor for achieving an honorable place on the world map. Absence of industries makes a Nation dependent on other countries and infringes on its dignity. Without industrialization no country can have political or economic freedom and raise the standard of living of its people rapidly.

Industrialization has been recognized as synonymous with economic development. The gap in per capita income between the developed and underdeveloped countries is usually attributed to the disparities in the structure of their economies where the developed countries are largely industrial economies, while the less developed countries are confined predominantly to agriculture.

The industrial sector, which possesses a relatively high marginal productivity, plays a crucial role in the eventual achievement of a self-sustained economy. Besides, the process of industrialization is associated with the development of mechanical knowledge, attitudes and skills of industrial work, with experience of industrial management and with other attributes of a modern society which, in turn, are beneficial to the growth of productivity in agriculture, trade, distribution and other related sectors of the economy. As a consequence of these factors, any successful transfer of labour from agriculture to industry soon contributes to economic development.

The pace of industrial development depends upon the quantum of capital resources and the availability of technology. The composition of industries i.e. the relative shares of large, medium and small industries depend upon the availability of the operations required for a given line of activity. Therefore, there are certain lines of activity which are exclusively suitable for small scale rather than large scale
operation. Moreover, in view of this labour absorption capacity, they are suitable for a labour abundant country like India. In a planned economic development programme, the existence and the role of small scale industrial sector cannot be ignored. Though the sector has normally been preferred for having more employment potential with relatively less capital when compared to other sectoral units, for its own survival it became necessary to use modern technology.

Employment

Unemployment problem has global dimensions and two thirds of the world is facing this problem. It is much more serious in the third world countries. That is why unemployment issue is not just a major concern in most of the third world countries, but its prevention is now universally considered a primary goal of economic policy. The increase in unemployment has been the most important factor in the accentuation of the problem of poverty. The expanding volume of unemployment led to the fall in the per capita consumption of the goods and services due to the increase in the number of non-earning dependents in most of the families.

The very high rates of population increase, with the education explosion and urbanization, have created a situation in which labour force of the developing countries continues to grow at a very high rate. This problem is more acute for Asian countries than for the African and Latin American countries. Even developed countries also have been facing this problem but the magnitude may be different.

Unemployment and underemployment are the twins which constitute the greatest and most alarming social problem. The evils of unemployment are so great that they have become a subject of national concern. The only way to solve the problem of unemployment and underemployment is to create more opportunities for productive work.

Underemployment, partial unemployment and disguised unemployment are various terms used to connote the several manifestations of inadequate employment opportunities or the under-utilization of the actual or potential manpower resources.
Though voluminous literature has emerged on this subject, there is no unanimous agreement on the measurement of employment in LDCs. This is due to the application of concepts to underdeveloped countries. The employment problem of underemployed countries is explained in terms of distorted factor prices, the factor proportions problem and inappropriate technologies.

Economic Growth and Employment

The problem of unemployment is linked with the problem of development. This is because what is desirable is not providing employment for the sake of employment but providing productive employment. If the number of unemployed is increasing, it is obviously because of the lack of developmental avenues of the proper kind in the economy.

It is argued that economic development creates employment and as well as unemployment. A mere increase in the economic growth can not solve the unemployment problem. Any strategy of minimizing the incidence of unemployment among the poor and the needy must be based on diagnosis of the co-existence of economic development with unemployment.

Maximizing the rate of economic growth and employing the entire labour force is easier said than done. Whatever may be the empirical correlates of growth and employment, one has to reckon with the reality of partial planning and other institutional rigidities which inhibit the attainment of full employment growth rate. Thus, employment creating measures will be based on a realistic assessment of what is possible to accomplish and at what costs, in both financial and socio-economic terms.

Uneven income distributions, in many countries, not only reflect the employment problem, but also cause it to exist. Attempts have been made to quantify the positive aspects of a given change in income distribution on the creation of productive employment opportunities. Employment creation becomes one of the most effective means of obtaining a more even income distribution which further stimulates employment creation. The function of the planning strategy, in such a situation, is to evolve a policy, which provides not only a compromise but also a harmony between the objective of development and that of employment. For formulating policies and
programmes for reduction of poverty and unemployment what matters most is not an estimate of the aggregate number of unemployed or underemployed but a better understanding of the anatomy of unemployment.

The starting point of an employment-oriented development strategy must be the consideration that the generation of productive employment depends both on the rate of economic growth and the pattern of development. It has been pointed out by the world employment programme country missions that the choice of a poverty and employment oriented growth path in fact results in a higher, rather than a lower, rate of economic growth. One of the first findings that have emerged from the research conducted under the world employment programme is that employment problem can be tackled effectively only within the frame-work of a comprehensive and integrated strategy.\(^6\)

**Origin of Small Scale Industries**

The industrialisation is the best means of achieving the higher growth rate and raising the living standards of the people. In the context of the developing economies, a few of specific objects and policies of industrialisation have been generally agreed upon by the planners. They are to provide work for growing populations, to raise the standard of living by increasing the per capita, net national income and often to improve balance of payments situation. Thus the development of small scale industries alone can provide large scale employment to the growing population in developing countries.

The industrial structure of India can be classified into three main groups. These are: the capital goods, the consumer goods and the small scale sector. The small sector can, in turn, be further sub-divided into village, cottage and modern small industry. The village and cottage industries produce traditional commodities like handloom cloth, hand-grounded rice, gur, etc. The modern small industry, on the other hand produces, non-traditional commodities like machine tools, radio sets, automobile parts, components, etc.
The Government of India set up the Planning Commission in 1950 with the object of ushering in an era of planned economic development. However, no sooner had the Planning Commission been set up, than it found itself in the midst of a controversy.

In the initial years, particularly 1952-54, the planners were faced with the task of initiating development in an economy which had suffered from centuries of backwardness and poverty. A number of alternative growth models were put forward but they all competed for the same set of resources. This in turn raised two basic issues, namely, first, should priority be given to the capital goods sector, the agricultural sector or the light consumer goods industry? Secondly, what should be the role of cottage or village industry in relation to the light consumer industry as suppliers of consumer goods to the labour force engaged in capital construction? This second issue was far more vexed than it initially appeared, because a large number of goods which were being produced by the large consumer industry were also being produced by the village, cottage sector.

Economists like Brahmananda and Vakil \(^\text{17}\) and B.R. Shenoy \(^\text{18}\), opposed priority to large industry on the ground that it implied a much larger volume of investment than was warranted by the country's capacity for resource mobilization. They, therefore, argued that the existing resources be first used to develop the agricultural sector where the bulk of the population was concentrated and it was only when this sector was capable of generating surpluses that priority be shifted to the industrial sector.

Joan Robinson \(^\text{19}\) toyed with the idea of production with alternative techniques of production. She appreciated the problem of unemployment in the context of Indian economic development. She noted that if priority was given to the setting up of large consumer industry, it would reduce the quantum of resources available for the development of capital goods industry. Also the huge labour force engaged in the handloom production of cloth would be thrown into unemployment, which, in turn, was bound to create seething discontentment in the countryside.
The official viewpoint representing Mahalanobis, A. K. Dasgupta, V.K.R.V. Rao, and K.N. Raj, argued that the existing resources were adequate to put in operation a reasonable sized plan to initiate rapid development of industry within the near future without waiting for the development of agriculture first. It was felt that priority to industry would make the country economically independent and provide for faster rates of growth. They admitted that while priority to heavy industry involved a larger magnitude of investment and a lower growth rate of income in the immediate future, it was bound to result in a high rate of capital accumulation in the long run.

The Bombay School found unexpected support from Milton Friedman and P.R. Baur. They pointed out that it was inadvisable to patch up the inefficient production techniques associated with village industries with the advanced techniques of capital goods industries. Even J.P. Lewis, who supported the Planning Commission according priority programme to heavy industry, wanted a shift of emphasis away from the cottage sector. I.M.D. Little and Thomas Balogh argued that inadequate supply of wage goods by traditional industry could well subvert the entire programme of development.

The Planning Commission announced its decision in 1956 in a policy statement titled, "The Industrial Policy Resolution 1956". The document favored priority to heavy industry. On the issue of priority between modern light consumer industry and small industry sector, the policy paper favored village, cottage and small scale industry as the major supplier of consumer goods.

Government support for small industry is explained in a series of pamphlets and documents, the most important being the Karve Committee Report (1956). This report, which was prepared at the behest of the Planning Commission, states that under development by its very nature implies the existence of a large volume of unemployment. The cottage and village industries in the 1950s were the second largest employers of labour force after agriculture. Bulk of the labour force engaged in the cottage sector was involved in the production of cotton, silk and woolen fabrics.
Additional arguments in favor of small industry were made in the Industrial Policy paper of 1956. They offer a method of ensuring more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill, which may otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centres of industrial production all over the country.

The Planning Commission, under the Chairmanship of Prof. Gadgil and member Mahalanobis was influenced by the opinion of the various international teams and groups that visited India during these years. There is evidence to show that the Commission had taken full cognizance of the international debate before reaching a decision. As early as 1953, the high powered International Team sponsored by the Ford Foundation comprising a chairman (Sweden) and four members, three of whom were from the United States, had made the government aware of the enormous potential of setting up small industries using modern technologies of production.

The small scale Industry has been recognised as one of the most appropriate means of developing the industrial economy of backward countries. Small Scale industries facilitate the tapping of resources which otherwise would remain unused. These resources included entrepreneurship, capital, labour and raw materials. They can mobilize rural savings which may otherwise remain idle or may be spent on luxuries or channeled into non productive ventures.

They are fairly labour intensive. Small Scale Industries create employment opportunities at a relatively low capital cost. In India, there is a basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population.

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. This role of Small Scale industries is of decisive importance in any economy.

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Such industries lead to the creation of employment opportunities on a dispersed basis not only in large cities and towns but also in smaller towns and far-flung regions. The establishment of small Scale Industries would, therefore, make it possible to reverse the current trend of the migration of the people from rural to urban areas.

The development of 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. A Small Scale Unit does not require highly sophisticated technology. It can, therefore, be useful in backward areas where the people have yet to be trained to meet the challenge of sophisticated technology.

Definition of Small Scale Industry

The concept of Small Firm\(^4\) has been defined in a number of ways. For instance, Neck (1977) quotes more than 50 different statistical definitions of a small scale firm in 75 countries\(^5\).

The criterion for a small firm definition is generally based in terms of an upper limit of fixed assets or net worth. Other definitions might be based on total employment, total sales, energy consumption, number of customers' etc. Clearly, therefore, firms which may be small by one criterion may not be small by others.

A small firm normally produces either a single product or a set of closely related products generally at a single establishment and has a small share of the market, although it could also get a large share of a very small market. It is normally sole proprietorship or a partnership firm, rather than corporate form of organisation. It is, therefore, generally managed by the owners themselves.

According to Eugene Staley, the distinguishing features of small scale industry in a developing country are:

(a) They need very little specialization or no specialization in management function.

(b) They have limited access to finance, especially the institutional finance.
(c) Weak bargaining position in its markets and

(d) Close personal contact between management and workers and often between the firm and its customers.

In Britain, on the other hand, there is no demarcation between small and large industries. However, in books and treaties on industrial subjects, units employing less than 500 workers are generally referred to as small units.

In Australia, the small firm is defined as having less than 100 employees in manufacturing and less than 20 employees in all other sectors. The Small Business Administration in the United States classifies a business as small if it has fewer than 250 employees but, within the range of 520 to 1000, it may be either small or large depending on the industry. These limits have been set up with the object of defining the scope of government assistance.

In India we find a number of definitions given from time to time by social thinkers, economists and commissions appointed by the Government, the earliest definition being the one given in 1916 by the Indian Industrial Commission (1916-1918). But the small scale industries were assigned an important role only after independence when the new dynamic era of development planning commenced in India.

**Small Scale Sector after Independence**

Soon after Independence, the National Government convened an Industries Conference in December 1947. The conference divided small and cottage Industries broadly into three categories:

(i) Those which are auxiliary to large scale industries, for example, manufacturers of heralds and needs, pickers, motor cushions, etc.

(ii) Those which are engaged in the supply of repair service, for example, motor repair, locomotive workshops and other small engineering establishments.
(iii) Those which are engaged in the manufacturing of finished goods such as brass, copper and aluminum wire, furniture, cutlery, iron foundries, hosiery, soap making, paper baskets, coir rope, preserves and pickles and paper etc.

On the recommendation of the Industries Conference, a Cottage Industries Board was set up for promoting small scale industries. Later on, it was felt that a single Board was inadequate to deal with the problems of the Village and Small Industries (VSIS) sector which covers a wide variety of industries varying in the nature of products provided by them, techniques and scale of production, vocational pattern and marketing channels. Therefore, in order to carry out planning and development effectively, the VSIs sector was divided into six broad groups of industries, though the line of demarcation between them is not always very clear-cut. These six groups are

(i) Handlooms
(ii) Khadi and Village Industries
(iii) Handicraft
(iv) Sericulture
(v) Coir
(vi) Small Scale Industries

Separate Boards were set up for each group of industries during 1952-53. Furthermore, in 1953-54, the government set up the Central Small Industries Organisation and the Small Scale Industries Board, as per the recommendation of the Ford Foundation Team.

It was realized that small industries, due to their small sizes, need some protection, assistance and facilities vis-à-vis large scale industries from the Government to develop freely and steadily. It was thought that the definition should neither be too liberal nor too restrictive in nature. Because a liberal definition would encompass many comparatively big units to needing such patronage and a restrictive definition, on the other hand, would not include many genuine small industries deserving such facilities and assistance from the Government.
The Small Industries Board was initially beset with the problem of evolving a suitable working definition of small industry for administering various assistance programmes. At its first meeting held on 5th and 6th January 1955, the Board adopted the first working definition of a small scale industrial unit. Subsequently, the definition of small scale industry was revised from time to time. The Govt. of India, when the new policy initiatives were announced for the SSI sector in 1999, decided to lower the ceiling from Rs. 3 crores to Rs. 1 crore. At present the ceiling limit is enhanced to Rs. 10 crore.

Revised Definition of SSI as SME

Different countries have defined SMEs in different ways. In Japan, a SME in the manufacturing sector is defined in terms of upper limit of paid-up capital of 300 million Yen or 300 employees (Small & Medium Enterprise Agency, 2004). In South Korea, SMEs are defined as firms, which are independently owned and employ less than 300 persons in the manufacturing, mining, transportation and construction sectors (Back, 2002). In the European Union, SMEs are defined in terms of employment and turnover/balance sheet total. To be classified as a SME, an enterprise must satisfy the criteria for the number of employees and one of the two financial criteria, that is, either the turnover total or the balance sheet total. In addition, it must be independent.

Considering the growing importance of the SSI sector to the overall economic development of the country, the government of India initiated a number of policy measures during the year, such as, enactment of MSME Act, 2005 which, inter alia, revised the SME definition to enable technology upgradation, brought out the concept of micro enterprise and services sector into focus.

Government of India recently introduced Small and Medium Enterprises bill, 2005 has proposed a definition of a medium enterprise in terms of investment in plant and machinery in the range of Rs.50 million to Rs.100 million and proposed to revise the upper investment limit for a small scale enterprise to Rs.50 million. If this definition is accepted, then SMEs would cover all enterprises having investment in plant and machinery up to Rs.100 million.
Classification of Small Scale Sector

As a result of government policy, the industry and the structure of the small scale sector could be bifurcated into two main components, namely, the traditional sector comprising cottage, village industries and the modern sector. The traditional sector could be taken to comprise handloom units producing cotton, woolen, and silken fabric. Cottage works engaged in the production of handicrafts, coir products, khadi fabrics, were also included. In essence, all activities which used hand-operated means of production were covered in the traditional sector. The modern sector, in turn, was taken to represent all manufacturing activities using power-based modes of production and comprised ancillary manufacturing establishments as well as small scale factories having investment in plant and machinery (capital stock) below a certain designated level. In textiles, all units employing less than 4 power looms were deemed to be in the small sector.

A separate identity was granted to ancillary units. All units, which were engaged in the production of parts, components, sub-assemblies, etc. and supplied at least fifty percent of their production to one or more parent units, were deemed to be ancillary establishments. They are required to produce goods of quality and precision as per specifications laid down by the parent units and this generally requires larger investments in good quality machines.

Small Scale Sector in Five Year Plans.

Till independence, only cottage industries, village industries, rural industries or agro-based industries were considered to be small industries. The National Planning Committee, set up in 1938 under the chairmanship of Pandit Jawaharlal Nehru, constituted a panel to study this problem. With the dawn of the planned era in the country the Government has been following a policy of promotion as well as protection of the small industries sector but the protection would be gradually reduced as and when promotional activities began to produce results.
Table 1.1
Proposed Outlays and Actual Expenditure Incurred on Small Industrial Units in Five Year Plan

<table>
<thead>
<tr>
<th>Plan</th>
<th>Proposed outlays of SSI</th>
<th>Actual expenditure incurred</th>
<th>Total plan</th>
<th>Percentage share of SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>N.A</td>
<td>5.2</td>
<td>2,356.00</td>
<td>1.2</td>
</tr>
<tr>
<td>Second Plan (1956-60)</td>
<td>55.0</td>
<td>44.4</td>
<td>4,800.00</td>
<td>0.9</td>
</tr>
<tr>
<td>Third Plan (1960-66)</td>
<td>84.6</td>
<td>86.1</td>
<td>7,500.00</td>
<td>1.1</td>
</tr>
<tr>
<td>Annual plan (1966-69)</td>
<td>-</td>
<td>39.4</td>
<td>6,757.00</td>
<td>0.6</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>104.3</td>
<td>70.3</td>
<td>15,902.00</td>
<td>0.4</td>
</tr>
<tr>
<td>Fifth plan (including industrial Estate) (1974-79)</td>
<td>241.3</td>
<td>221.7</td>
<td>38,853.24</td>
<td>0.6</td>
</tr>
<tr>
<td>Sixth plan (including industrial state ) (1980-85)</td>
<td>616.1</td>
<td>616.1</td>
<td>97,500.00</td>
<td>0.6</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>1,120.0</td>
<td>-</td>
<td>1,80,000.00</td>
<td>0.6</td>
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<td>Eighth Plan (1992-97)</td>
<td>2,862.1</td>
<td>-</td>
<td>4,34,100.00</td>
<td>0.7</td>
</tr>
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<td>Ninth Plan (1997-2002)</td>
<td>3,330.0</td>
<td>2855.0</td>
<td>8,59,200.00</td>
<td>0.3</td>
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<td>Tenth Plan (2002-2007)</td>
<td>3,449.0</td>
<td>-</td>
<td>15,25,639.00</td>
<td>0.2</td>
</tr>
</tbody>
</table>

NA = Not Available

Source: Government of India, Planning Commission, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, and 9th plans, New Delhi, Laghu-Udyog Samachar, April-Sep, 2002, p.32.

First Five Year Plan (1951-56)

In the First Five Year Plan, a major step was taken for the development of village and small scale industries with the establishment of All India Boards to advise and assist in the formulation of the programme of development of small scale industries, including sericulture and coir. Although during the Second World War, small industries were set up throughout the country to meet the Defense requirements, a number of these disappeared totally or partially at the end of the war. The First Plan attempted to indicate some of the problems which were involved in formulation of substantial development programmes for small industries and handicrafts and divided
small industries into three groups viz., those which exist independently, those integrated with and those offering competition to, large scale industries.

Second Five Year Plan (1956-61)

The total outlay on small scale industries in the Second Five Year Plan was Rs. 180 crores as against Rs. 43 crores in the First Plan. A number of new programmes were organised and steps were taken to provide a more assured market for the products of some of the industries. Reservation of the production of certain varieties of cloth and certain types of agricultural implements, prohibition of further expansion in certain large-scale industries like vegetable oils, rice milling, leather foot wear, match etc. and the laying down of separate targets of production for the small scale and the large scale sectors of certain industries like bicycles, sewing machines were some of the steps taken.

In the later period of the Second Plan, marketing conditions for some of the small scale industries improved following the intensification of import restrictions. Programmes for village and small scale industries and problems connected with their implementation were reviewed by the Karve Committee on Village and Small Scale Industries (Second Five Year Plan) which was appointed by the Planning Commission in June, 1955. The Programme Evaluation Organisation made a study of rural industries in selected community development blocks. In spite of shortages of certain basic raw materials many small industries notably machine tools, sewing machines, electric fans and motors, bicycles, builders hardware and hand tools expanded considerably at the rate of 25 per cent to 50 per cent per annum. The number of registered companies with authorized capital of less than Rs. 5 lakhs each and engaged in processing and manufacturing increased by 1,160 during 1957-1961. Sixty industrial estates were completed, and the programme for small scale industries as a whole provided full time employment to 3 lakh persons. 40.
Third Five Year Plan (1961-1966)

The main objectives of the Third Five Year Plan in regard to the programme for village and small scale industries were:

(i) To improve the productivity of the workers and reduce production costs by placing a relatively greater emphasis on positive forms of assistance, such as improvement in skill, supply of technical advice, better equipment and credit

(ii) To reduce progressively the role of subsidies, sales, rebates and sheltered markets

(iii) To promote the growth of industries in rural areas and in small towns

(iv) To promote the development of small scale industries as ancillaries to large industries, and

(v) To organize artisans and craftsmen on cooperative lines.

In the Third Five Year Plan (1961-66) a total outlay of Rs. 264 crores was proposed for programmes of village and small industries, made up to Rs. 141 crores for schemes of the States and Union Territories and Rs. 123 crores were expected to be invested from private programmes of community development, rehabilitation of displaced persons, social welfare and welfare of backward classes. Part-time and fuller employment was envisaged for 8 million persons and additional full time employment for 6.3 lakh persons during the Third Plan.

Fourth Five Year Plan (1969-1974)

Fourth Five Year Plan (1969-1974) proposed a total outlay of Rs. 370 crores in the public sector for the development of village and small industries, exclusive of the outlays on the development of these industries in the programmes for community development, rehabilitation of displaced persons and development of special areas. About Rs. 400 crores were invested from private sources, including banking institutions. Thus, a total outlay of nearly Rs. 800 crores was expected to be available for small scale industries under the Fourth Plan.
The main programme during the Fourth Plan were to entrust the work of administration of credit facilities under the State Aid to Industries Act, training and common service facilities, quality marketing and consolidation of the Industrial Estates Programme, to the States. The Central Government continued to implement schemes related to industrial research, industrial extension services, supply of machines on hire purchase terms etc.\textsuperscript{42}

**Fifth Five Year Plan (1974 -79)**

A significantly large number of persons, dependent on traditional industries like handloom, sericulture, coir, khadi and village industries and living below the poverty line, live mostly in rural and backward areas; some of them belong to the backward classes. Therefore, the principal objectives of the programme for the development of different small industries in the Fifth Plan were to facilitate the attainment of some of the major tasks for the removal of poverty and inequality in the consumption standards of these persons through the creation of large scale opportunities for fuller and additional productive employment and improvement in their skills so as to raise their level of earnings. Further more, the programme was reoriented to set up the production of some of the basic and essential articles for the masses and of the products which have a larger potential for exports. Taking into account the shortcomings in the implementation of the programmes during the Fourth Plan Period and the recommendations of the Task Forces set up in connection with the formulation of the programmes for these industries, the broad strategy of the programmes was\textsuperscript{43}.

1. To develop and promote entrepreneurship and provide a package of consultancy services so as to generate the maximum opportunities for employment, particularly self-employment

2. To facilitate a fuller utilization of skills and equipment of the persons already engaged in different small industries.

3. To progressively improve the production techniques of these industries so as to bring them to a viable level, and
(4) To promote these industries in selected growth centres in semi urban and rural areas, including backward areas.

Sixth Five Year Plan (1980-85)

The Sixth Five Year Plan marked a significant stage in the development of small scale industry.

The promotion of village and small scale industries was to continue to be an important element in the national development strategy because of its very favorable capital-output ratio and high employment intensity. During the sixth five year plan, the programmes for the village and small industries sector were framed with the following objectives:

(1) Improvement in the levels of production and earnings, particularly in the earnings of artisans, by upgrading skills and technologies and producer-oriented marketing.

(2) Creation of additional employment opportunities on a dispersed and decentralized basis.

(3) Ensuring a significant contribution to growth in the manufacturing sector through, inter alia, a fuller utilization of existing installed capacities.

(4) The establishment of a wider entrepreneurial base by providing appropriate training and a package of incentives.

(5) Creation of a viable structure of the village and small industries sector so as to progressively reduce the role of subsidies; and

(6) Expand efforts in export promotion.

In the light of the above objectives, the policy support for the development programmes relating to village and small industries during the Sixth Five Year Plan was along the following lines:
1. Integration of the promotional programme in the sector with other area development programmes, and the adoption of a cluster approach, particularly for the traditional industries.

2. Restructuring of the organisational base at the district level to make it more effective and result oriented.

3. Development of appropriate technologies and skills, their effective extension and transmission.

4. Increased availability of raw materials, including the creation of buffer stocks, particularly critical raw materials.

5. Accelerated flow of institutional funds, especially in favor of artisans, village industries and tiny units, and the rationalization of the interest rate structure.

6. Organisation of producer-oriented marketing both within and outside the country.

7. Selective reservation of items for exclusive production in the purchase from the cottage and small industries.

8. Effective promotion of ancillaries.

9. Strengthening and extension of the cooperative form of organisation, particularly for the cottage and tiny units and

10. Building up of a sound database to facilitate proper policy formulation and evaluation.

As a major contributor to the planned growth of employment, the small scale sector received a very high priority. The development effort was mounted on many fronts. Certain products were reserved for manufacture exclusively in the small scale sector. The excise duty differentials ensured that the products of the small scale sector were cheaper for the public than similar products manufactured by the large scale sector.
To ensure a coordinated growth and minimise the number of contact points, District Industries Centres were setup. The transfer of research and technology to this sector was given much greater impetus. As for credit, the possibility of extending the margin money scheme was considered. In the marketing of products, a major effort was mounted to remove the middleman and to provide, through the cooperative sector, a remunerative outlet for the products of cottage industries. Steps were taken to enhance the provision for training, technical assistance and other facilities.

Seventh Five Year Plan (1985-90)

Within the overall focus on food, work and productivity laid down in the Seventh Five Year Plan the village and small industries sector would contribute towards improving the economic and occupational profile of rural semi-urban and weaker sections of urban communities through promotion of village and small scale industrial activities.

For promotion of rural industrialisation Khadi village industries centres were reorganized and professionalized. Further, specific steps were taken to diversify industries in rural areas to remove regional imbalances. About 43.5 per cent of all industrial licenses were granted to backward areas during the first two years.

Research and development efforts were stepped up and the results there of were transferred to the field level agencies, providing for some of the welfare measures including housing-cum-work shed facilities and thrift fund scheme for the benefit of the artisan type of units. In this plan period, the government started extending the basic support in terms of functional assistance like marketing, anciliarisation, credit flow, supply of raw material and critical inputs, technology, training etc. The Seventh Plan envisaged discouraging the setting up of industries on or around urban agglomerations and package of incentives were provided to attract industries in backward regions. The implementing agencies did set up cells to monitor, evaluate and build an effective information service system so as to enable a periodic assessment of various promotional programmes.
Eighth Five Year Plan (1992-97)

In the Eighth Five Year Plan, the Government decided to allocate 50 per cent
of the plan investment to rural and agricultural development.

A major change proposed in the Eighth Plan was to redefine the Rural and
Agricultural sector. There is a growing realization that if these heads of expenditure
are taken out of the purview of Rural and Agricultural development, which includes
the highly labour intensive and self employment oriented cottage and small scale
industries, the total allocation to these sectors will amount to more than 60 per cent of
the total public sector investment.

The Ninth Five Plan (1997-2002)

The approach and strategy of the Ninth Plan towards the small scale industrial
sector flows from the following observation made by the Plan. 'The small scale sector
has shown considerable resilience and in built strength. After the opening up of the
economy, its growth rate has been about two to three percentage points higher than
that of large and medium industries. The sector has matured and is in a position to
make a much greater contribution to the national economy as well as to meet the
competition from large industry, including multinationals. The SSI sector will be
provided with necessary incentives and support, including making available credit to
facilitate its growth and development leading to increased contribution to output,
exports and employment generation'. The first part of this statement implies that
because of its 'resilience', the small scale sector does not now need reservation. This
is what the Ninth Plan did indeed state categorically just after one paragraph where it
eulogized the virtues of dereservation. It says that dereservation would help a number
of SSI units to upgrade their technology, improve the quality of their products, expand
their scale operation, and boost their exports as presently a number of export orders
are being lost because of inability of domestic producers to supply the desired
quantity in the required time frame. Obviously, the strategy for the small-scale sector
in the Ninth Plan envisaged dereservation of items reserved so far for the small scale
sector. However, this is to be done in such a way that it does not cause any 'sudden
dislocation and problems for the weak small scale units'.
The Plan recognised that the biggest problem facing the small scale sector is inadequate availability of credit and hence, proposed a number of initiatives in this regard like strengthening the financial and management base of State Financial Corporations and Small Industries Development Organisations to enable them to provide better services to the small scale sector.

The Tenth Five Year Plan (2002-07)

A Study Group under the chairmanship of Dr. S.P. Gupta submitted a report on small industrial sector problems in July 2000. After inter-ministerial consultations on the interim report, the Prime Minister announced a number of new policy initiatives on 30 August 2000.

- Enhancement of excise duty exemption limit for small industrial units from Rs. 50 lakh to Rs. 100 lakh.
- Increase in composite loan limit to Rs. 25 lakh.
- Coverage of loans up to Rs.25 lakh under the Credit Guarantee Fund scheme
- Increase in project cost limit under the National Equity Fund scheme to Rs.50 lakh.
- Credit linked capital subsidy at 12 per cent of the cost of technological upgradation of small industrial units for modernization of small industrial units.
- The service and business related small industrial units with a maximum investment limit of Rs. 10 lakh would also be covered under priority lending
- Enhancement of investment limit to Rs. 500 lakh for hi-tech and export oriented sectors
- Technology Bank would be set up for small industrial sector by strengthening the existing Technology Bureau for Small Enterprises (TBSE) of SIDBI.

- One time capital grant of 50 per cent to Small Industry associations for setting up international level testing laboratories for small industrial units.
- Preference to be given to tiny units while organizing buyer-seller meets, vendor development programmes and exhibitions.
Conducting of Third Census of Small Industries

Integrated Infrastructure Development Centres (IIDC) scheme extended to all areas.

The Small Industries Development Organization (SIDO) works with the credit support extended by the Reserve Bank of India (RBI), Small Industries Development Bank of India (SIDBI), and commercial banks for assisting small industrial units through technology, marketing, infrastructure and training support. It works The SIDO has set up 10 Tool Rooms are functioning at Kolkata, Ludhiana, Jalandhar, Ahmedabad, Indore and Aurangabad. A new Tool Room and Training Centre has been set up at Guwahati.

The Technology Upgradation and Management Programme (UPTECH) was launched in 1998 to take care of the modernization and technological needs of the small industrial clusters. There about 350 important small industrial clusters in the country. During the Tenth Five Year Plan 58 IIDCs have been approved and central grant of Rs. 38.83 crore has been released up to February 2001. An additional 50 centres are proposed to be taken up during the Tenth Plan Period.

The Prime Minister’s Rozgar Yojana (PMRY), now under the ministry of Agro and Rural Industries, makes institutional finance available to educated unemployed youths for setting up of business/industrial ventures. Since the inception of PMRY in 1993-94 against the target of 1.8 million beneficiaries (1993-94 to December 2001), 1,868 million beneficiaries were sanctioned loans and Rs. 8,402 crore was disbursed to 1,433 million beneficiaries. For the Tenth Plan period, the target number of beneficiaries to be covered annually is proposed to be increased from 0.22 million per year to 0.26 million per year, so as to cover the backlog. Average lending by banks to PMRY beneficiaries was Rs. 53,632 per project/venture.

The NSIC has established five Technical Service Centres at Okhla in Delhi, Rajkot, Howrah, Chennai and Hyderabad to provide technical and consultancy services to small industrial units. During the Ninth Plan, against the target of Rs. 6,015 crore the Corporation’s turnover was Rs. 4,074.90 crore. It registered profits up to 1999-2000.
The Tenth Plan has been expected to increase the production of this small industrial units to Rs.1401939 crores, provide employment to 23.7 million persons, and export goods worth Rs.126000 crores by 2006-07.

During the Tenth Five year plan an outlay of Rs.3,449.0 crores has been proposed for the development of village and small industrial units out of the total plan outlay of Rs.15,25,639.0 crores as on 2002-07. The sector is targeted to grow at 12 per cent per annum during the Tenth Plan.

Recent Government Policy Measures Towards SSI Sector

The government is moving forward with the agenda of reforming the SSIs. Several reform measures are being undertaken to enable the SSIs to counter the threat of competition from imported goods in the face of withdrawal of quantitative restrictions. The major policies initiated over the previous years to help the sector include.

Major Measures Undertaken During 2005-06

- For allowing small enterprises to grow, 193 items reserved for exclusive manufacture in the SSI sector were de-reserved in 2004-05 to bring down the total number of reserved items to 506.
- As announced in the Budget 2005-06, the turnover eligibility limit under the General SSI Excise Exemption Scheme was raised from Rs.3 crore to Rs.4 crore.
- With a view to integrating small and medium enterprises, facilitating their growth and enhancing their competitiveness (including measures to reduce the rigours of the "Inspector Raj" faced by the sector), the 'Small and Medium Enterprises Development (SMED) Bill 2005' was introduced in the Lok Sabha on 12th May 2005.
- A 'Policy Package for Stepping up Credit to Small and Medium Enterprises’ was announced on 10th August, 2005.
Under the 'Credit Linked Capital Subsidy Scheme' (CLCSS) for technology upgradation, amendments were made with effect from September 29, 2005, which, inter alia, raise ceiling on loans from Rs.40 lakh to Rs.1 crore and the rate of subsidy from 12 per cent to 15 per cent.

RBI formulated the scheme of 'Small Enterprises Financial Centers' (SEFC) to encourage banks to establish mechanisms for better coordination between their branches and branches of Small Industries Development Bank of India (SIDBI) in the identified clusters for more efficient credit delivery.

To facilitate technology upgradation and enhance competitiveness, the investment limit (in plant and machinery) was raised from Rs.1 crore to Rs.5 crore in respect of 69 items reserved for manufacture in the small scale sector and for all items in the drugs and pharmaceuticals sector. Notification to this effect to be issued shortly.

A new 'Package for Promotion of Micro and Small Enterprises' is under formulation to include supplementary measures to encourage adequate credit flow, provide further incentives for technology upgradation, infrastructure and marketing facilities, capacity building of micro and small enterprises, and support to women entrepreneurs.

Salient Features of New Industrial Policy for the development of Small Scale industries in India

- Equity participation up to 24 per cent by other industrial undertakings (including foreign companies)
- Legislation to limit financial liability of new and non-active partners / entrepreneurs to the capital invested.
- Hike in investment limit for tiny sector up from Rs.2 lakhs to Rs.5 lakhs.
- Service sector to be recognized as tiny sector.
- Support from National Equity fund for projects up to Rs.10 lakhs.
Single Window Loans to cover projects up to Rs.20 lakhs. Banks too to be involved.

Easier access to institutional finance.

Factoring services through SIDBI to overcome the problem of delayed payments. Also, legislation to ensure payment of bills.

Marketing of mass consumption items by National Small Industries Corporation under common brand name.

Composite loans under the single window scheme also to be given by banks.

Tiny sector to be accorded priority in government purchase programme.

Priority to SSIs and tiny units in allocation of indigenous raw materials.

PSUs and NSIC to help market products through consortia approach both domestically and internationally.

Legislation to ensure payment of small-scale industries bills.

A special monetary agency to be set up for the small scale sector’s credit needs.

A new scheme of integrated infrastructural development to be implemented.

Importance of Small Enterprises

The small-scale sector has a high potential for employment, dispersal of industries, promoting entrepreneurship and earning foreign exchange to the country. The following points further demonstrate the importance of small-scale industries.

1. Small is Beautiful: “Small is beautiful”, said E.F. Schumacher. He maintains that man’s current pursuit of profit and progress, which promotes faint organizations and increased specialization, has in fact resulted in gross inefficiency, environmental pollution and inhuman working conditions.

2. Innovative and Productive: it is the small units which are highly innovative though they do not maintain their own research and development wings.
3. Individual Tastes, Fashions and Personalized Service: Small firms are quick in studying changes in tastes and fashions of consumers and in adjusting the production process and production accordingly.

4. Symbols of National Identity: Small enterprises are almost always locally owned and controlled, and they can strengthen, rather than destroy, the extended family and other social systems and cultural traditions that are perceived as valuable in their own right as well as symbols of national identity.

5. Happier in Work: People who work in small enterprises are happier in their work than those who work in large ones, though the former have lower wages and work under conditions of poor standards of safety, comfort and welfare facilities.

6. Always Winners of the Game: Small enterprises and new entrepreneurs were at the forefront of practically every business boom of the last decade, whether it was computers, television sets, consumer electronics, garments, diamond exports or advertising.

7. Dispersal Over Wide Areas: it is only small-scale units which have a tendency to disperse over wider areas. According All-India Census of small-scale units, 62.19 per cent of the units are located in backward areas.

Problems of Small Enterprises

The problems experienced by small enterprises are quite different from those felt by medium and large units. Small units have low capital base, and lack bargaining power. They do not have access to capital market to raise additional resources, unlike the medium and large enterprises. Scope for ploughing back profits into the business and inclination and ability to finance modernization are also limited. They are more susceptible to failure; hence, borrowings may end up in non-performing assets in the event of the failure of the enterprise. Bankers' aversion to financing small enterprises is largely due to the vulnerability of financing as a result of high cost of the transaction, low volume of funds needed and dispersal of units. Where units are found in clusters, financing performance is better. Major problems faced by the units and banks, initiatives taken by Government of India and RBI are listed here.
1. Lack of appreciation of financial data in SSI units

Most of the SSI units are run either as proprietary concerns or partnership firms, as against company form of business, and thus lack accountability. As per the 3rd All India Census of SSIs of 2001-02, 96 per cent of registered units, 98 per cent of unregistered units and 97.7 per cent of all units fall in this category. Among the registered SSI units 98 per cent and among all units 99.5 per cent are of tiny sector category. SSI units maintaining accounts are only 29.4 per cent among registered ones, 6.5 per cent among unregistered ones and 9.5 per cent among total SSI units, which include service enterprises. Due to lack of professional expertise and inability to hire the services of professionals for the purpose, SSI units are not able to get bank loans. There is general lack of appreciation in SSI units of financial data and preparation and use of financial statements as per the requirement of banks and financial institutions.

2. Delayed payments for SSI vendors and ancillaries

Medium and large units purchasing components and services from small scale vendors and ancillary units do not pay the amount for the purchases within a reasonable period of about 3 months. Hence small enterprises face the problem of locking up of working capital in supplies made to parent enterprises. To overcome this delay in repayment, a few approaches have been made. At the national level, Delayed payments Act has been passed. Factoring service has been introduced to facilitate early payment to supplying firms pending settlement by large units. RBI and Union Department of Company Affairs have stipulated that payment due from medium and large units to SSI units should be shown in the annual statement of account of the company, along with the period for which they have become due. In the loan sanctioned by banks and financial institutions to the bigger units, a portion should be specified and earmarked for clearing the dues of SSI units. Experience so far in all these approaches has not proved to be effective.

3. High rate of sickness

The higher rate of sickness among small enterprises discourages banks to volunteer to lend to small enterprises because of the likelihood of high non-performing assets.
4. Cost of credit

The cost of credit and the terms and conditions for SSI loan are dearer compared to the pattern on which finances are made available to medium and large units.

5. Inaccessibility of capital markets

Virtual inaccessibility of the capital market and limited foreign investment funding do not offer much hope for small enterprises to raise additional funds. At present, up to 24 per cent of equity and capital can be made available by other enterprises, including foreign enterprises.

6. Difficulty in estimation and inadequacy of working capital

Lack of expertise in making proper estimation of working capital requirement in tiny sector units in particular, has resulted in inadequacy of working capital and lack of credit facilities. At times, long-term funds sanctioned to a unit are diverted for short-term purposes. This is because, short-term finances given by commercial banks are untimely and the quantum of assistance released is inadequate. There is a wide gap between the amount of loan applied for, sanctioned and finally released to SSI units.

7. Terms of repayment of loan

Small entrepreneurs complain that the financial institutions are fixing the repayment of first installment much before the actual commencement of production. The number of installments for repayment of loan is not fixed on the basis of the nature of business, probable period of gestation, financial background of the borrower and income generating capacity of the project. The negative attitude of bankers reduces the confidence of borrowers.

8. Procedural complexities

The procedural hassles and complexities involved force the SSI entrepreneurs not to approach institutional sources, not to speak of the apprehension of inability to make regular repayments. Delays in sanction leading to cost overrun are another problem experienced by SSI units. Inability to provide collateral or third party guarantee discourages SSI entrepreneurs to approach banks. RBI has asked banks to
provide collateral free loans up to Rs. 5 lakh and up to Rs. 25 lakhs in respect of units with good track record. Under the Credit Guarantee Fund Scheme for SSI units operated by SIDBI, provision is made for collateral and third party free loans up to Rs. 25 lakh. Credit linked capital subsidy scheme is implemented for technology upgradation for specified product lines (35 in early 2005) through SIDBI. Composite loan up to Rs. 1 crore, provided through a single source, is another facility.

9. Risk perception

As SSI financing is being seen as a highly risky affair by banks, changing the mindset of banks and facilitating the process through new instruments and special category of intermediaries can be possible approaches to enhance the flow of credit to SSI sector.

10. Difficulties in recovery for SSI units

Small entrepreneurs have to purchase raw materials on cash basis whereas they have to extend credit facility to the buyers. Due to increasing competition, piled up stock, sales through intermediaries and credit facility to the buyers have become inevitable. This leads to a situation of bad debts for SSI units. This affects the working capital position of the units.

11. Credit rating

Credit rating is a facility planned by SIDBI to support SSI units to get loans from banks with ease. This appears to be a costly proposition for SSI units.

12. Sub-allocation for SSI sector

Sub allocation of credit to SSI sector as part of priority sector financing, say 16 per cent to begin with, compared to 18 per cent for agriculture can help the process.

13. Norms for working capital estimation

As per the P.R. Nayak committee recommendations of 1992, simplified procedure of assessing working capital requirement for SSI units at 20 per cent of annual normative turnover is to be implemented in all earnestness. For certain categories of industries, if this formula results in inadequacy, the proposals need to be
considered for sanctioning higher limits on a case by case basis. The idea of bank loans to SSIs will be seen as a banker lending an umbrella in sunshine and wanting it back as soon as it rains and this idea gets reinforced in the context of bank loans for small enterprises in the Indian context.

Incentives and Schemes for Small Industrial Units

The small industrial sector has emerged as the most vital and dynamic sector of the Indian economy. The government of India, being fully aware of the problems being faced by small industrial units in obtaining institutional credit from time to time is introducing measures for augmenting the flow of credit to small industrial sector. The role played by the Commercial Banks, State Financial Corporations (SFCs), Small Industries Development Bank of India (SIDBI), and other financial institutions in extending credit to the small industrial units has been noteworthy.

1. Financial Assistance to Small Industrial Units:

Finance is considered to be the "lifeblood" of business especially in the case of Small Industry. Finance is the key input for their growth and their development. During the period of pre-independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the Government has built up a network of specialized financial institutions with a fairly big capital base to provide financial assistance to all type of industries, including small industrial units.

1) Type of Industrial Finance Depending upon the nature of activity, the entrepreneurs require three types of finance i.e., Short-term finance, medium-term finance and Long-term finance as clearly explained below.

a) Short-Term Finance: Short-Term finance usually refers to a period that is less than one year. Short-Term finance is usually required for seasonal or temporary working capital requirements. Banks give the short-term finance. Banks are a very important source of short-term finance.
b) Medium term Finance: Medium Term Finance period is about one year to five years. The medium term finance is usually required for permanent working capital, small expansion, replacement, modification etc.,

c) Long Term Finance: The long term finance refers to financing over a period of five to seven years. Long term finance is required for providing fixed assets for the establishment of new business. Besides, many financial institutions are given those loans.

2. Schemes for Small Industrial Units:

In the First Post World Trade Organization (WTO) environment, it has become very clear that small industrial units have to be cost competitive and produce quality goods to remain in business. The ministry of SSI proposed to help small industrial units by giving incentives for taking ISO-9000 certification, introduce a Credit Linked Capital Subsidy Schemes (CLCSST), Technology upgradation Scheme and Credit Guarantee Fund Trust (TGSCGFT) for Small Industries.

3. Reimbursement for ISO-9000 Certification Scheme

The scheme, in operation since March 1994, provides upto Rs.75000 per small industrial units which acquire ISO-9000/14001 Certification. Since the inception of the scheme of ISO-9000 reimbursement, 4101 small industrial units have been benefited upto Nov-2006 under this scheme and an amount of Rs. 19.44 crores has been reimbursed.

4. Laghu Udyami Credit Card Scheme:

Laghu Udyami Credit Card Scheme (LUCCS), introduced in November 2001, has been implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the tiny sector. Credit limit per enterprise under the scheme has been increased from Rs.2 lack to Rs.10 lack for borrowers with satisfactory track record.
5. Sowarojgar Credit Card scheme:

Swarojgar Credit Card Scheme (SCCS) has been launched since 15th August 2003 and banks are providing working capital needs of self employed persons to the extent of Rs.25000 lakhs per card.

Credit flow from the formal system to small borrowers, especially persons of small means, has not been satisfactory which has been confirmed by various studies. Various credit delivery innovations in the form of SHG - Bank Linkage Programme for making financial services available to the poor, Kisan Credit Card Scheme (KCCS) for meeting the production credit needs of the farmers for small industrial sector have been introduced. However, tiny and cottage village industries sectors and self employed persons were left out from credit card schemes.

6. Credit Guarantee Fund Trust Schemes for Micro and Small Industries (CGFTSI):

The scheme covers collateral free credit facility extended by eligible lending institutions to new and existing Micro and Small Enterprises upto Rs.50 lakh per borrowing unit. Under the Scheme, 73431 Proposals, amounting to Rs.1971.33 crore, have been approved. Credit Guarantee Fund Trust for Micro and Small Industries helps small entrepreneurs to realize their dreams of making it big and successful.

7. Credit Linked Capital Subsidy Scheme (CLCSS):

The Scheme was started in October, 2000 for a period of 5 years wherein small industrial units were encouraged to go in for Technology upgradation by installing new machinery and equipment for increasing productivity, quality upgradation and machinery for packaging or for environment protection. Initially 13 items were short listed under the scheme and providing 15 per cent upfront capital subsidy with effect from the 29.09.2005 to Micro, Small and Medium Enterprise units. A provision for giving subsidy of Rs.600 crores was made under the scheme. Now the list of items has been expanded to 30 items. The scheme needs to be propagated so that more number of units can become technically advanced.
8. National Equity Fund Scheme (NEF):

The objective of NEF Scheme is to provide equity type support to entrepreneurs for setting up new projects in tiny/small industrial sector for undertaking expansion, modernization, technology upgradation and diversification by existing tiny, Small Industries and Service Enterprises and for rehabilitation of viable sick units in the small industrial sector.

In this scheme, State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), Scheduled Commercial Banks & Select Urban and State Co-operative Banks are eligible. In NEF scheme project cost should not exceed Rs.50 lakhs in the case of new projects.

Integrated Infrastructure Development Scheme (IIDS)-was launched in 1994.

It aims at providing basic infrastructural facilities like Power distribution network, Water, Roads, Telecommunication, Drainage and Pollution Control facility, Banks, Storage and Marketing outlets, Common Service Facilities and Technological back up services etc. The estimated cost to set up an IID centre is Rs.5.00 crore (excluding cost of land). Central Government provides upto 40 per cent or Rs.2.00 crore in the case of general states and 80 per cent or Rs.4.00 crore for North-east region like J&K, Himachal Pradesh, Uttarakhand.

9. Assistance to Entrepreneurship Development Institutes (EDI):

For strengthening training infrastructure in EDIs, assistance upto 50 per cent or Rs.100 lakhs whichever is less for State Government.

10. Technology development and Modernization Fund scheme (TDMF):

SIDBI is operating the TDMF scheme with a corpus of Rs.300 crore to encourage existing industrial small industrial units for modernization of their production facilities and adoption of improved and updated technology. The scheme initiated in 1995 has been extended up to the financial year 2003.
11. Technology Upgradation Scheme for Textile and Jute Industries (TUFS):

The Technology Upgradation Scheme for textile and jute industries was launched on April, 1999 for a period of 5 years. Interest reimbursement of 5 per cent on the interest actually charged is allowed. Since inception of the scheme, Rs.2.58 crores has been disbursed.

Small Industrial Units and Development of Backward Areas

The rapid pace of industrialization has enabled the people in the developed countries to lead a life with all the basic necessities of life, such as food, clothing and shelter and the problems of poverty and unemployment have not reached the alarming heights as in the case of the developing countries. In a situation like this, the developing countries like India, have certainly a lesson to learn from the experiences of the developed countries which could achieve economic development through industrialization, the lesson being that the under developing countries have to consider industrialization as a panacea to find solution to their problems of poverty, unemployment, malnutrition, housing, education and other modern amenities which make the life smooth.\(^5\)

A serious thought was given by our policy makers, after independence, to make all the regions industrially developed so that greater employment opportunities and economic avocations can be provided to the people in backward areas. During the third Five year plan also, the government of India had laid considerable emphasis on the removal of regional imbalances. It was planned to achieve this objective through the adoption of the appropriate policy of license and grant of financial subsidies and fiscal concessions to those industries which would be located/established in the notified backward areas. Hence, in November, 1968, the government of India had appointed two working Committees for this purpose, popularly known as “Pande Committee” for the identification of industrially backward areas and the “Wanchoo Committee” for suggesting the financial and fiscal incentives to be given for promotion of new industries in industrially backward states, especially small industrial units in India.
The Pande Working Group recommended the following criteria to be applied in aggregate for the purpose of identification of industrially backward states and Union Territories i.e. (a) Total per capital income, (b) Per capita income from industry and mining, (c) Number of workers in registered factories, (d) Per capita annual consumption of electricity, (e) Length of surfaced roads in relation to population and the area of the states and (f) Railway mileage in relation to population and the area of the State.

On the basis of these criteria, the working group recommended and Government of India approved that the following industrially backward states and Union territories should qualify for special treatment by way of incentives for industrial development.

Wanchoo Working Group recommended in 1969, the following set of fiscal incentives for attracting the entrepreneurs to set up industries in the backward areas:

a) Grant of higher development rebate to industries located in backward areas,
b) Grant of exemption from Income-tax, including corporate tax for 5 years after providing for the development rebate, c) Exemption from import duties on plant and machinery, component, etc., imported by units set up in backward areas, d) Exemption from sales tax, both on raw materials and finished products to units set up in specified backward areas for a period of five years from the date of their going into production and e) Transport subsidy.$^{51}$

The Central Government Capital Investment Subsidy Scheme was introduced by government of India in 1971, after considering the recommendations of Wanchoo committee by the ‘National Development Council’. Under this scheme, expanding units in selected backward districts were entitled to get 10 per cent subsidy on the total fixed capital or additional fixed capital investment upto Rs.50 lakhs. However, units with investment exceeding this ceiling would also be considered at the discretion of the Government, though the maximum amount of subsidy would still be Rs.5 lakhs. In 1973, rate of subsidy was raised to 15 per cent in the investment ceiling to Rs.1 crore. The discretionary clause for units with investment exceeding this limit would still hold, subject to a subsidy limit of Rs.15 lakhs.
Credit facilities do have a vital role in the implementation of small Industrial Units Development Programmes. The availability of required credit on easy and liberal terms is also essential for the progress of small industries. To achieve this, sound institutional frame work is essential for the flow of credit to the small industries. The existing institutional frame work for the flow of financial assistance consists of Commercial Banks, Co-operatives Banks and Regional Rural Banks, State Financial Corporations (SFC's), National Small Industrial Corporation (NSIC) and Small Scale Industrial Development Corporations (SSIDC) sector. The Small Industrial Development Bank of India (SIDBI) provides funds to the Commercial Banks and the State Financial Corporations (SFC's) through refinancing and bills rediscounting schemes.

The progress achieved in this sector is due to adoption of support polices and programmes by central and state governments in the fields of financial assistance through specialized institutions, reservation of items for exclusive production and purchase, concessions in the import of raw materials and machinery, direct assistance like consultancy, marketing, training and technical guidance etc., through a net work of agencies like Small Industries Development Organization (SIDO), Small Industries Service Institute (SISI), District Industries Centre (DIC), National Institute for Entrepreneurship and Small Business Development (NISEBD), and other specialized bodies.

National Committees on Small Industrial Units

1. Nayak Committee: Nayak Committee set up by the Reserve Bank of India in December 1991 (Report came in September 1992) dealt with aspects of adequacy and timeliness of credit to small industrial units. Nayak Committee found that small industrial sector was getting working capital to the extent of 8.1 per cent of its annual output which was less than the normative requirement of 20 per cent. Accordingly, Nayak committee recommended that the Small Industrial sector should obtain 20 per cent of its annual projected turnover by way of working capital. Based on these as well as other recommendations of the Nayak Committee, RBI issued a number of circulars advising the banks to grant working capital to the extent of 20 per cent of the projected annual turnover, timely disposal of loan
applications and setting up of specialized bank branches for small industry loaning in areas noted for concentration of small industries.

As a corollary to Nayak Committee recommendations, Finance Minister announced a Seven Point Action Plan in Union Budget 1995-96 for improving the flow of credit to small industrial sector. This includes setting up specialized small industrial branches, adequate delegation of power at the branch and regional levels, conducting sample surveys of their performing small industrial accounts by banks, sanction of composite loans, regular meetings with small industrial entrepreneurs, sensitization of bank managers towards workings of the small industrial sector and simplification of procedural formalities by banks.

RBI has issued instructions to banks vide its circular dated 30th March, 1995 for effective implementation of the Seven Point Action Plan.

Steps taken by RBI and SIDBI: The Reserve Bank of India and the Small Industries Development Bank of India have taken the following steps in the last couple of years to improve credit flow to the small industrial sector:

- The simplified method for computation of working capital on the basis of projected annual turnover has capital on the basis of projected annual turnover has been extended to small industrial units borrowers having working capital requirements upto Rs.4 crore.

- The investment limit having been raised for small industrial units from Rs. 60 lakh to Rs. 3000 lakh and for tiny units from Rs. 5 to Rs. 25 lakh. There are apprehensions that credit would be cornered by the bigger small industrial units. In order to ensure that credit is available to all segments of small industrial sector, RBI has issued instructions that out of the funds normally available to small industrial sector, 40 per cent be given to units with investment in plant and machinery upto Rs.5 lakh; 20 per cent for units with investment between Rs. 5 lakh to Rs. 25 lakh and remaining 40 per cent for other units.

- Public sector banks have been advised to irrationlalize more specialized small industrial units branches at centres where there is potential for financing many small industrial units borrowers. As on March 1998, 370 specialized small industrial units branches are working in the country.
The composite loan scheme of SIDBI has been modified and ceiling limit increased from Rs.50,000 to Rs.2 lakh in September, 1997. This has further been raised to Rs. 5 lakh in September, 1998 to facilitate easier availability of credit to tiny sector.

The Technology Development & Modernization Fund Scheme of SIDBI has been modified and made applicable to non-exporting small industrial units as well. The interest rate on loans provided under the scheme will be based on prime lending rate. This would enable the non-exporting small industrial units to modernize themselves in order to compete in emerging economic environment.

2. Kapur Committee: Deposits the steps taken by Reserve Bank of India, the problem of credit still persists. Concerned with the continuing problem of non-adherence to RBI guidelines of credit to small industrial sector, Reserve Bank of India has appointed a High-Powered Committee under the chairmanship of Sri S.L. Kapur, Former Secretary (SSI), Government of India, to suggest measures for improving the delivery system and simplification of procedures for credit to small industrial sector. The committee has submitted its report to RBI on 30th June, 1998. The Committee has made, in all, 126 recommendations. Some of the major recommendations of the Committee are:

- Special treatment to smaller units among small industries;
- Enhancement in the quantum of composite loans;
- Removal of procedural difficulties in the path of small industrial units advances;
- Sorting out issues relating to mortgages of land including removal of stamp duty and permitting equitable mortgages;
- Allowing access to low-cost funds to Small Industries Development Bank of India (SIDBI) for refinancing small industrial units loans;
- Non-obtention of collaterals for loans up to Rs.2 lakh;
- Setting up of a collateral reserve fund to provide support to first party guarantees;
Setting up of a Small Industrial Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas;

Change in the definition of sick small industrial units;

Giving statutory powers to State Level Inter Institutional committee (SLIIC);

Setting up of a separate guarantee organization and opening of 1000 additional specialized branches and;

Enhancement of SIDBI’s role and status to match with that of National Bank for Agriculture and Rural Development (NABARD).

RBI has already accepted 35 recommendations and has asked the banks to implement these recommendations immediately. Important among these are enhancement in the limit of composite loan from Rs.2 to 5 lakh, special programmes for training of branch managers, delegation of more powers to bank managers to the extent of 20 per cent of the limit sanctioned, strengthening of recovery mechanism, opening of more specialized bank branches, adoption of committee approach for sanction of application and disposal of loan applications in time bound manner. Other recommendations are under the examination of RBI and Government of India.

3. Abid Hussain Committee: To address the need for reforms in the existing policies and to frame new policies for small enterprises development which will facilitate the growth of viable and efficient enterprises that can adjust to technological change and remain internationally competitive, Government had constituted an Expert Committee on Small and Medium Enterprises on 31st December, 1995 under the Chairmanship of Sri Abid Hussain. The Committee has submitted its report to the Government on 27th January, 1997 embodying a set of recommendations for policy directives for future growth and performance of small enterprises.

Major Recommendations: The following are the major recommendations of the committee:
Abolition of Reservation and transitional arrangement of Rs.500 crore per annum (for five years) for rehabilitation of units affected by dereservation.

Raising investment ceiling of small and tiny units to Rs.300 lakh and Rs.25 lakh respectively from the present limit of Rs.60 lakh and Rs.5 lakh.

Earmarking 70 per cent of priority sector credit going to small industrial sector for tiny sector.

Corporatisation of Government Extension Agencies. SIDO has set up several extension agencies such as RTCs, Tool Rooms, SISIs, and Entrepreneurship Institutes. These were set up in the past but are now facing competition from private sector. These government institutions running with old technologies need to be corporatised.

Separate law for small enterprises.

Focus on clusters as model of future growth.

Restructuring of District Industries Centres to make them more promotional rather than regulatory. DICs should be redesigned as autonomous District Enterprise Promotion Agencies with participation from business associations, Government agencies, Banks etc.

Restructuring of State Financial Corporations and Small Industries Development Corporations by Industrial Development Bank of India and emphasis on composite loaning.

Excise incentives for upgrading small industrial units and tiny units and raising exemption limit for small industrial sector as a whole permitting exemption on production under others brand name

Financial arrangements for exporting units. Creation of a fund to assist exporting small industrial units.

Financing for technology upgradation and concessional finance for modernization and technology upgradation.

Action taken on Committee's Report: The following action has been taken on the recommendations of the Hussain Committee Report:

40
a) Abolition of Reservation of Reservation: The Committee in its report has recommended total abolition of reservation. The issue of total dereservation has been considered by the Advisory Committee on Reservation constituted under the Industries Development & Regulation) Act. The Committee was of the view that complete dereservation is not desirable at this stage as it would affect quite a large number of units and may be done in a phased manner. Based on the recommendations of the Committee, Government had dereserved 15 items in April 1997. Dereservation of agricultural implements/tools has been announced in the Union Budget Speech 1998-1999.

b) Raising of investment limit: The Committee had recommended increasing of the investment limit for small industrial units to Rs. 300 lakh and for tiny units to Rs.25 lakh from the present limit of Rs. 60 lakh and Rs. 5 lakh respectively.

c) Earmarking of priority sector credit for Small Industrial Units: The Government have decided to raise the investment limit for Small Industrial Units from Rs. 60 lakh to Rs. 300 lakh and for tiny units from Rs. 5 lakh to Rs. 25 lakh. In order to ensure that credit is available to all segments of small industrial sector, it has been decided that out of funds normally available to small industrial sector, 40 per cent will be reserved for units with investment in plant and machinery up to Rs.5 lakh, 20 per cent for units with investment between Rs. 5 lakh and Rs. 25 lakh and the remaining 40 per cent for other units. Reserve Bank of India has issued instructions to all banks.

d) Enhancing the limit of composite loan: The limit of Rs.50,000 for composite loan has been increased to Rs.21 lakh from September, 1997. This limit has further been enhanced to Rs.51 lakh by the Reserve Bank of India in Aug.1998.

e) Setting up of Metal Forming Industries: It has been decided that to begin with, one centre on an experimental basis would be set up in the form of Metal Forming Industries at Chennai, TamilNadu, by the Government of India and the State Government of TamilNadu and in association with the metal forming industries. The Centre would provide technologically improved quality toolings, training facilities for operating highly specialized tools and also provide common service facilities for design and manufacture of tooling with computer aided design and manufacture facilities. 

Rs 3,312
n 134
Growth and Performance of Small Scale Industries

There has been an impressive growth in the number of small scale units. The numbers of units have increased from 4.2 lakh units in 1973-1974 to 8.71 lakh units by 1980-1981. The increase in units, however, has been predominant between 1980-1981 and 1990-1991 from 8.7 lakh to 67.87 lakh units. During the post reform period, the growth of SSI units has been gradual and steady which is evident from the increase from 97.15 lakh units in 1999-2000 to 123.42 lakh units in 2005-2006. There has been a steady growth in investment, production, employment and exports during 2005-2006 over 1973-1974*.

The performance of small scale industries in terms of number of units, investment, production, employment and exports in India from 1990-1991 to 2007-2008 is presented in Table 1.2. As could be observed from the table, the total number of industrial units rose from 6.79 million in 1990-91 to 13.37 million in the year 2007-08 showing a growth rate of 3.95 per cent per annum. While the registered small scale industrial units grew at a higher rate of 5.52 per cent per annum, the unregistered units registered a smaller growth rate of only 3.92 per cent per annum during the period under consideration. The growth of investment in small scale units was also not impressive. The total investment of all the units rose from Rs. 936 billion to Rs. 2390 billion between 1990-91 and 2007-08 registering a growth rate of 4.82 per cent per annum during the period. Industrial production, however, showed impressive growth both at current and constant (1993-94) prices. At current prices, the industrial production grew at the rate of 12.03 per cent and at constant prices, the same grew at the rate of 9.49 per cent per annum. The employment growth, on the other hand, exhibited a dismal picture. The total employment generated by all the small scale units rose from 15.83 billion to 32.23 billion between 1990-91 and 2007-08 recording an abysmal growth rate of only 4.05 per cent per annum. This implies that even small scale industries are also not employment intensive. One consoling feature with regard to the performance of small scale industries was the higher growth rate of exports of this sector. The exports of SSI sector in India increased from Rs. 96.94 billion to Rs. 1776.0 billion registering an impressive growth rate of 10.69 per cent per annum at current prices.
Table 1.2
Performance of Small Industries—Production, Employment and Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative No. of SSI Units (Millions)</th>
<th>Fixed Investment (Rs. Billion)</th>
<th>Production (Rs. billion)</th>
<th>Employment (millions)</th>
<th>Exports at Current Prices (Rs. billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regd.</td>
<td>Unregd.</td>
<td>Total</td>
<td>At Current Prices</td>
<td>At 1993-94 Prices</td>
</tr>
<tr>
<td>1990-91</td>
<td>0.79</td>
<td>6.00</td>
<td>6.79</td>
<td>936</td>
<td>635</td>
</tr>
<tr>
<td>1991-92</td>
<td>0.87</td>
<td>6.19</td>
<td>7.06</td>
<td>1004</td>
<td>731</td>
</tr>
<tr>
<td>1992-93</td>
<td>0.99</td>
<td>6.36</td>
<td>7.35</td>
<td>1096</td>
<td>856</td>
</tr>
<tr>
<td>1993-94</td>
<td>1.06</td>
<td>6.59</td>
<td>7.65</td>
<td>1158</td>
<td>988</td>
</tr>
<tr>
<td>1994-95</td>
<td>1.16</td>
<td>6.80</td>
<td>7.96</td>
<td>1238</td>
<td>1222</td>
</tr>
<tr>
<td>1995-96</td>
<td>1.16</td>
<td>7.12</td>
<td>8.28</td>
<td>1258</td>
<td>1483</td>
</tr>
<tr>
<td>1996-97</td>
<td>1.20</td>
<td>7.42</td>
<td>8.62</td>
<td>1306</td>
<td>1684</td>
</tr>
<tr>
<td>1997-98</td>
<td>1.20</td>
<td>7.77</td>
<td>8.97</td>
<td>1332</td>
<td>1892</td>
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<tr>
<td>1998-99</td>
<td>1.20</td>
<td>8.14</td>
<td>9.34</td>
<td>1355</td>
<td>2129</td>
</tr>
<tr>
<td>1999-00</td>
<td>1.23</td>
<td>8.48</td>
<td>9.71</td>
<td>1400</td>
<td>2343</td>
</tr>
<tr>
<td>2000-01</td>
<td>1.31</td>
<td>8.80</td>
<td>10.11</td>
<td>1473</td>
<td>2613</td>
</tr>
<tr>
<td>2001-02</td>
<td>1.37</td>
<td>9.15</td>
<td>10.52</td>
<td>1543</td>
<td>2823</td>
</tr>
<tr>
<td>2002-03</td>
<td>1.47</td>
<td>9.48</td>
<td>10.95</td>
<td>1625</td>
<td>3120</td>
</tr>
<tr>
<td>2003-04</td>
<td>1.53</td>
<td>9.84</td>
<td>11.37</td>
<td>1707</td>
<td>3577</td>
</tr>
<tr>
<td>2004-05</td>
<td>1.64</td>
<td>10.21</td>
<td>11.85</td>
<td>1888</td>
<td>3990</td>
</tr>
<tr>
<td>2005-06</td>
<td>2.03</td>
<td>10.31</td>
<td>12.34</td>
<td>1983</td>
<td>4762</td>
</tr>
<tr>
<td>2006-07</td>
<td>2.10</td>
<td>10.75</td>
<td>12.85</td>
<td>2132</td>
<td>5851</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.47</td>
<td>10.90</td>
<td>13.37</td>
<td>2390</td>
<td>6951</td>
</tr>
<tr>
<td>LGR</td>
<td>5.52</td>
<td>3.69</td>
<td>3.95</td>
<td>4.82</td>
<td>12.03</td>
</tr>
<tr>
<td>R²</td>
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<td>0.99</td>
<td>0.99</td>
<td>0.93</td>
<td>0.89</td>
</tr>
<tr>
<td>t-value</td>
<td>9.41</td>
<td>54.46</td>
<td>43.13</td>
<td>14.13</td>
<td>11.51</td>
</tr>
</tbody>
</table>

Note: * All India Census of SSI units, Ministry of Small Scale Industries, Govt. of India.

Production of Small Industrial Units

In India, the small industrial sector has been producing more than 7500 products. The small industrial sector contributes 40 per cent of the production of the manufacturing sector.

The progress made by small industrial sector in terms of production during the period of study is presented in table 1.3. The table shows that it is important to compare the value of production made by small industrial sector with the Gross Domestic Product of country as a whole to know the relative importance of small industrial sector. The Gross Domestic Product of India increased form Rs.477817 crores in 1990-1991 to Rs.4448806 crores in 2007-2008 showing a growth rate of 1.11 per cent per annum.

The share of production made by small industrial sector in the Gross Domestic Product of India was 13.29 per cent during 1990-1991 and 15.63 per cent during 2007-2008 which clearly indicates the relative importance of the small industrial units in the economy of the country.

It is observed from the table that the value of the total production of the small industrial sector increased from Rs.63518 crores in 1990-1991 to Rs.695126 crores in 2007-2008 showing a growth rate of 12.07 per cent per annum.
<table>
<thead>
<tr>
<th>Year</th>
<th>Production of small industrial units at current prices (Rs.in crores)</th>
<th>Gross domestic product at current prices (Rs.in crore)</th>
<th>Percentage share of column 2 in column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>63518</td>
<td>477814</td>
<td>13.29</td>
</tr>
<tr>
<td>1991-92</td>
<td>73072</td>
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<td>1992-93</td>
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</tr>
<tr>
<td>1993-94</td>
<td>98804</td>
<td>799077</td>
<td>12.36</td>
</tr>
<tr>
<td>1994-95</td>
<td>122210</td>
<td>943408</td>
<td>12.95</td>
</tr>
<tr>
<td>1995-96</td>
<td>148290</td>
<td>1103238</td>
<td>13.44</td>
</tr>
<tr>
<td>1996-97</td>
<td>168413</td>
<td>1285259</td>
<td>13.10</td>
</tr>
<tr>
<td>1997-98</td>
<td>189178</td>
<td>1426670</td>
<td>13.26</td>
</tr>
<tr>
<td>1998-99</td>
<td>212901</td>
<td>1598077</td>
<td>13.32</td>
</tr>
<tr>
<td>1999-00</td>
<td>234255</td>
<td>1786525</td>
<td>13.11</td>
</tr>
<tr>
<td>2000-01</td>
<td>261289</td>
<td>1925415</td>
<td>13.57</td>
</tr>
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<td>2001-02</td>
<td>282270</td>
<td>2100157</td>
<td>13.44</td>
</tr>
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<td>2002-03</td>
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<td>13.77</td>
</tr>
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<td>2003-04</td>
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<td>2549418</td>
<td>14.03</td>
</tr>
<tr>
<td>2004-05</td>
<td>418263</td>
<td>2855933</td>
<td>14.65</td>
</tr>
<tr>
<td>2005-06</td>
<td>476201</td>
<td>3250932</td>
<td>14.65</td>
</tr>
<tr>
<td>2006-07</td>
<td>585112</td>
<td>3803228</td>
<td>15.38</td>
</tr>
<tr>
<td>2007-08</td>
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<td>4448806</td>
<td>15.63</td>
</tr>
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<td>0.66</td>
</tr>
<tr>
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<td>15.18</td>
<td>5.55</td>
</tr>
</tbody>
</table>

Export Performance of Small Industrial Units in India

Export promotion has been one of the objectives behind the policy of product reservation for the small scale industrial sector. Export promotion from small industrial sector has been accorded a high priority in India's export promotion strategy which includes simplification of procedures, incentives for higher production for exports, preferential treatment to the small industrial units in the Market Development Fund (MDF), simplification of duty draw back rules etc.35

The performance of small industrial units in the exports is presented in table 1.4. The table shows that the exports from small industrial units increased from Rs. 9664 crores in 1990-91 to Rs. 177600 crores in 2006-07 registering a growth rate of 10.69 per cent per annum respectively.

The table shows that the total exports from India increased from Rs. 32553.30 crores in 1990-91 to Rs. 562686.63 crores in 2006-07 showing a growth rate of 10.94 per cent per annum. The share of the exports of small industrial units in the total exports from India increased from 29.70 per cent in 1990-91 to 31.56 per cent in 2006-07. Hence, one never fails to understand the impressive performance of the small industrial units on the export front of India.

The share of exports of the small industrial units in the production of small industrial units is another indicator of export performance of small industrial units in India. The share of exports from small industrial units in the production of small industrial units increased from 15.21 per cent in 1990-91 to 30.35 per cent in 2006-07. It is also clear from the table that the export performance of small scale industrial units, as per cent of production of small industrial units, has increased continuously both before and after inception of SIDBI in India.

The main reason for the commendable performance of small industrial units in the export front is mainly due to the export promotion policy followed by the Government of India under various schemes primarily related to advance licensing scheme, the scheme of hundred per cent export oriented units, setting up of units in export processing zones and free trade zones.
<table>
<thead>
<tr>
<th>Years</th>
<th>Exports of small industrial units</th>
<th>Production of small industrial units</th>
<th>Total exports from India</th>
<th>Percentage of column 2 in column 3</th>
<th>Percentage of column 2 in column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>9664</td>
<td>63518</td>
<td>32553.30</td>
<td>15.21</td>
<td>29.69</td>
</tr>
<tr>
<td>1991-92</td>
<td>1388</td>
<td>73072</td>
<td>44041.80</td>
<td>19.00</td>
<td>31.52</td>
</tr>
<tr>
<td>1992-93</td>
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<td>85581</td>
<td>53350.50</td>
<td>20.78</td>
<td>33.33</td>
</tr>
<tr>
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<td>98804</td>
<td>69547.00</td>
<td>25.61</td>
<td>36.39</td>
</tr>
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<td>122210</td>
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<td>23.79</td>
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<td>24.59</td>
<td>34.26</td>
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<td>168413</td>
<td>117525.00</td>
<td>23.30</td>
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<td>189178</td>
<td>126286.00</td>
<td>23.49</td>
<td>35.19</td>
</tr>
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<td>4897</td>
<td>212901</td>
<td>141603.50</td>
<td>23.01</td>
<td>34.59</td>
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<td>234255</td>
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<td>282270</td>
<td>207746.00</td>
<td>25.24</td>
<td>34.29</td>
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<td>311993</td>
<td>252789.97</td>
<td>27.57</td>
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</tr>
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<td>291582</td>
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<td>31.56</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>LGR</td>
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<td>12.07</td>
<td>10.94</td>
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<td>11.71</td>
<td>3.84</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Note: NA- Not available.

Employment Generation in Small Industrial Units

The small industrial sector has been accorded a key role in the industrial and economic development strategy of the government of India, mainly to achieve the twin objectives of rapid industrialization and expansion of employment opportunities on a decentralized basis. An attempt has been made to study the trends and role of small industrial units in employment generation in India. The second five year plan of India, while justifying the emphasis on the small industrial sector in the overall strategy of industrialization, has mentioned that small industrial units provide immediate large scale employment at relatively much less cost of capital. They offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.

Trends in employment in small industrial units and their contribution to overall employment growth in the industrial sector and in the economy as a whole from 1990-1991 to 2007-2008 are presented in table 1.5.

The table 1.5 shows that the employment generation in the small industrial units increased from 158.34 lakh persons in 1990-1991 to 322.28 lakh persons in 2007-08 showing a growth rate of 4.05 per cent per annum. The employment in the economy as a whole increased from 289.53 lakh persons in 1990-91 to 289.53 lakh persons in 2007-08 registering a growth rate of 0.08 per cent per annum. It is therefore, clear that the growth of employment in small industrial units is higher than that of the whole economy of India after the inception of SIDBI.
### Table 1.5
Total employment and employment generated by SSI in India during 1990-91 to 2007-08

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment in small industrial units (lakh persons)</th>
<th>Total employment in the total public and private sector in India (lakh persons)</th>
<th>Column 2 as percentage of column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>158.34</td>
<td>267.33</td>
<td>59.23</td>
</tr>
<tr>
<td>1991-92</td>
<td>165.99</td>
<td>270.56</td>
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<td>1992-93</td>
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<td>69.54</td>
</tr>
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<td>197.93</td>
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<td>70.84</td>
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<td>238.73</td>
<td>277.89</td>
<td>85.91</td>
</tr>
<tr>
<td>2001-02</td>
<td>249.33</td>
<td>272.06</td>
<td>91.65</td>
</tr>
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<td>2002-03</td>
<td>260.21</td>
<td>270.00</td>
<td>96.37</td>
</tr>
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<td>2003-04</td>
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<td>264.43</td>
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</tr>
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<td>2005-06</td>
<td>294.91</td>
<td>271.53</td>
<td>108.61</td>
</tr>
<tr>
<td>2006-07</td>
<td>312.52</td>
<td>281.62</td>
<td>110.97</td>
</tr>
<tr>
<td>2007-08</td>
<td>322.28</td>
<td>289.53</td>
<td>111.31</td>
</tr>
</tbody>
</table>

| LGR     | 4.05                                             | 0.08                                                                        | --                               |
| R²      | 0.99                                             | 0.93                                                                        | --                               |
| t-value | 35.22                                            | 0.69                                                                        | --                               |

Note: Not available


The share of small industrial units in the overall employment of the economy of India increased from 59.23 per cent in 1990-91 to 111.31 in 2007-08. Thus, the small industrial units have catered to the employment needs of people in the country.
Fig.1.1: Total Employment and Employment Generated by SSI in India during 1990-91 to 2007-08
Sickness in Small Industrial Sector

Industrial sickness in small industrial units has become endemic and an epidemic, which does not seem to have any entry barrier. The phenomenon of industrial sickness appears to have become increasingly common in the last few decades. Industrial units both in the large and small industrial sector are reported to have been gripped by the sickness. Sickness in an industry like human sickness requires nursing if not hospitalization. It should, therefore, be considered essential not only to devise suitable arrangements for not only monitoring but also detecting industrial sickness at an early stage.

Increasing incidence of industrial sickness has been a matter of concern for entrepreneurs, managers, shareholders, creditors, government, and the society in general and the managements of banks and financial institutions in particular, for quite some time. Recent studies indicate that the problem has acquired alarming proportions.

Sickness results not only in loss of production but also displacement of labour employed, in the affected industrial units. The increasing magnitude of industrial sickness in the country, its causes, and effects are being discussed by all concerned in the industry.

The problem of tackling industrial sickness continues to loom large despite diagnostic surveys being undertaken by the government from time to time. Only one inevitable conclusion emerges and that is, prevention is better than cure. We need to examine the incidence and nature of small industrial sickness in order to understand the underlying debilitating factors to outline preventive measures. In this context, two points are of importance. There is a high incidence of sickness in new small industrial units (termed as infantile sickness), the incidence of failure being the highest in the first two to three years. This is not surprising given the fact that the first two to three years are crucial as start up years in which many teething problems encountered can easily upset the small industrial units apple cart. The risk of failure is found to be the highest in this period. These start up risks are

1. Implementation risks
2. Shortage of working capital
3. Market entry risks

4. Risks of high operational and financial leverages, in the initial years

5. Risk of predominantly single handed management (small industrial units are generally one man show). Small industrial units must be conceptually sound in order to tide over the crucial initial years.

Causes of Sickness in Small Industrial Units: So many people in their empirical work done on various causes of industrial sickness in India and abroad classify the causes into two groups, 1) Internal causes, 2) External causes.

1) Internal causes: Among the internal factors the only essential factor responsible for industrial sickness is management inefficiency. There are various reasons for inefficiency, lack of delegation of authority resulting in excessive centralization and authoritarianism, lack of professional attitude, harsh treatment of labour, weak and inefficient board of management, infighting at the top etc. Consequently, wrong choice of technology reckless and conspicuous expenditure and faulty financial planning and control leads to the units struggling for survival. Moreover, poor personnel management, manufacturing, financial and marketing management of the units has added to the gravity of the situation. The inefficient manufacturing units don't know how to tackle excess installed capacity and etc.

2) External causes: External factors are associated with the support system that includes availability of raw material, power, transport, working capital, finance facilities for marketing of their products, infrastructure, unrealistic policy of public sector banks, government distribution system, under utilization of installed capacity, lower level of productivity and rising operation cost. It has, however, been estimated that the two major factors for small industrial sickness are lack of adequate and timely working capital and lack of marketing facilities.
### Table 1.6
Sickness in Small Scale Industrial Units during the Year 1990-2008

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Year</th>
<th>No. of units sick in small scale industrial sector</th>
<th>Amount outstanding (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1990</td>
<td>218828</td>
<td>2426.94</td>
</tr>
<tr>
<td>2</td>
<td>1991</td>
<td>211472</td>
<td>2792.04</td>
</tr>
<tr>
<td>3</td>
<td>1992</td>
<td>245575</td>
<td>3100.67</td>
</tr>
<tr>
<td>4</td>
<td>1993</td>
<td>238176</td>
<td>3442.97</td>
</tr>
<tr>
<td>5</td>
<td>1994</td>
<td>256452</td>
<td>3680.37</td>
</tr>
<tr>
<td>6</td>
<td>1995</td>
<td>268815</td>
<td>3547.16</td>
</tr>
<tr>
<td>7</td>
<td>1996</td>
<td>262376</td>
<td>3721.84</td>
</tr>
<tr>
<td>8</td>
<td>1997</td>
<td>235032</td>
<td>3909.21</td>
</tr>
<tr>
<td>9</td>
<td>1998</td>
<td>221536</td>
<td>3843.00</td>
</tr>
<tr>
<td>10</td>
<td>1999</td>
<td>306221</td>
<td>4313.48</td>
</tr>
<tr>
<td>11</td>
<td>2000</td>
<td>304235</td>
<td>4608.43</td>
</tr>
<tr>
<td>12</td>
<td>2001</td>
<td>249630</td>
<td>4505.54</td>
</tr>
<tr>
<td>13</td>
<td>2002</td>
<td>177980</td>
<td>4818.95</td>
</tr>
<tr>
<td>14</td>
<td>2003</td>
<td>167980</td>
<td>5706.35</td>
</tr>
<tr>
<td>15</td>
<td>2004</td>
<td>138811</td>
<td>5284.54</td>
</tr>
<tr>
<td>16</td>
<td>2005</td>
<td>138041</td>
<td>5380.13</td>
</tr>
<tr>
<td>17</td>
<td>2006</td>
<td>126824</td>
<td>4981.13</td>
</tr>
<tr>
<td>18</td>
<td>2007</td>
<td>114132</td>
<td>5267.00</td>
</tr>
<tr>
<td>19</td>
<td>2008</td>
<td>85187</td>
<td>13849.00</td>
</tr>
<tr>
<td>20</td>
<td>LGR</td>
<td>-3.82</td>
<td>6.33</td>
</tr>
<tr>
<td>21</td>
<td>$R^2$</td>
<td>0.48</td>
<td>0.48</td>
</tr>
<tr>
<td>22</td>
<td>$t$-value</td>
<td>-3.96</td>
<td>3.99</td>
</tr>
</tbody>
</table>

The incidence of sickness in small industrial units increased day-by-day and year-by-year. It also increased bank amount outstanding. This incidence of sickness is not only a problem for industries but also a problem for the society. Sickness of small industrial units in India is presented in table 1.6.

The table 1.6 shows that 218828 small industrial units in India are sick and the bank of amount outstanding is Rs. 2426.94 crores in 1990. The total number of sick units decreased to 85187 units and the outstanding amount increased to Rs. 13849 crores in 2008, registering a growth rate of sick units at -3.82 per cent per annum and outstanding amount growth rate at 6.33 per cent per annum respectively.
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2. Charanjit Chanana, 1983, *Industriyal Economics in Developing Countries*, New Delhi, Mr.Surren Chanana publishers, p.94.


27. Little, I.M.D., 1960, "The Third Five Year Plan and the Strategy of Indian Development".


32. This fact is repeatedly brought out in the paper "The Approach of Operational Research to Planning in India" by Prof. Mahalanobis when he states that it is difficult to start planning on a completely new slate, past trends have to be taken into account before taking economic decisions of fundamental importance.


34. The term 'Small Firm', 'Small Industry', small-scale industry have been used synonymously.


37. In 1953-54, the Ministry of Commerce and Industry invited an International planning Team, through the courtesy of the ford Foundation to report on the measures that might be adopted to develop small scale industries.


42. Government of India, *Fourth Five Year Plan* (New Delhi, Planning Commission, 1970), P. 284


50. Dr.G.Satyanarayana (1990), *Industrial Development in Backward Regions in India*, (Submitted this article to the Seminar conducted in the Academic staff college, Tirupati, March, 8-9.

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53. Dr.C.S.Prasad and K.C.Kousik (1997), 50 years of small scale industries in India (policies and programmes), Laghu Udyog samachar, Jan-Dec., p-18.

