Chapter – III

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Chapter – III

Conceptual Framework

III.1. Introduction

Mahatma Gandhi said that in the true sense India is in villages. This statement is true even today since 70 percent of the population lives in rural area and depends in it for its employment and livelihood. Agriculture still assumes the mainstay of the rural people. Technological breakthrough in agriculture has made it possible to generate rural employment and increase the level of the farmers. Despite six decades of economic planning one cannot feel proud that poverty has been alleviated. The fact is that we are yet to make a significant dent even on the problem of destitution. 29 crore of people still live below the poverty line. Again in the matter of unemployment, rural area accounted for 82 percent of the unemployed and under employed in the country. During the pre-independence days, village artisans constituted 25 percent of the village population. There was a steady decline in their strength year after year. Not only had such households declined numerically, their income levels also declined sharply.

Rural industries are usually those industries which are engaged in manufacturing, processing, preserving and servicing in village and small town involving utilization of locally available natural resources and for human skills and small amount of capital. The various rural industries can be broadly classified in to three categories viz, (i) Cottage industries (ii) Agro based industries and (iii) Small scale industries.

The Small Scale industrial (SSI) sector has acquired a prominent place in the socio economic development of our country. Small scale industries are small in term but play a significant role in the Indian economy. It is acknowledged by the government that, alongside agriculture, small scale industry is an important segment of the Indian economy. Small scale industries contribute significantly to employment generation, disposal of industrial activity to rural and backward areas, ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills.
The overall credit of developing this sector goes primarily to the vision of Jawaharlal Nehru, the first Prime Minister of free India, who proposed and implemented the development of core industry and a supporting sector in the form of small scale enterprises. In the words of our Prime Minister Dr. Manmohan Singh, “The key to our success in employment lies in the success of manufacturing in the small scale sector”. The Small-Scale sector is important not only for its contribution of GDP but also for its stellar performance in exports and generating employment.

Small scale industry is widely recognized as a powerful instrument for socio economic growth and balanced sectorial development. The SSI sector has emerged as a vibrant and dynamic sector and an engine of growth for present millennium. One of the distinctive characteristics of small scale sector is that, the development of these industries would create broader employment opportunities assisting in entrepreneurship and skills development, and ensure better use of scarce financial resources and appropriate technology thereby reducing regional imbalance assuring more equitable distribution of National income and wealth. Furthermore they can play a main role in achievement of National economic socio-political objectives. It is a rejoicing to observe that the SSI has been a prime contributor to the overall growth of the Industrial sector in India. The growth rate recorded by the SSI sector has normally been higher than that of an industrial sector as a whole. The small scale industry sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy.

SSI units are supplementing and complementary to large and medium scale units as ancillary units. Considering the large employment level and backlog of creation of new jobs to provide employment to all able hands today hopes are pointed on the small scale sector. The Government is making all efforts to provide conductive atmosphere, level playing ground and policy support to enable the SSI sector to achieve higher levels of production, export and employment. Today, this sector account for 95 percent of industrial units in the country, 40 percent of value addition in the manufacturing sector, 65 percent of services and more than 35 percent of the countries total exports and nearly 80 percent of
Industrial employment in Indian economy. Now Indian becomes an emerging force in the international markets. This sector has become the engine of growth in the new millennium.

**The Meaning of Small:**

A Small is beautiful, efficient innovation and creative where pursuit for progress is endless and growth is the way of life. Use of “Small” as a designation in industry differentials one set of industries from others. Comparatively small in operation, employment, products, capital, technology etc. Thus, this small sector share unique problems compared to others. In the case of manufacturing units, small industries are to be expected to have a unique set of problems in relation to their ‘smallness’ that differentiates them from medium and large manufacturing units. At the same time, the small sector has unique advantages and, as such small is not only beautiful, but also beneficial efficient and reliable.

**Definition of Small Scale Industry:**

The Small scale industry evokes different meanings for different agencies and the financial institutions. However, the definition of small industry is an important aspect of government policy as it identifies the target groups. The first official criterion for small-scale industry dates back to the Second Five Year Plan when it was in terms of gross investments in land, building, plant and machinery and the strength of the labour force. Subsequently, on the recommendation of the of the Federation of Association of Small Scale Industries of India (FASII), an apex level organization of small-scale industry, sets up under the aegis of the Ford Foundation team, only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or by hire-purchase, instead of fixing the limit on overall investment, was considered for granting the status of a SSI unit.

From time to time, there have been many changes in the ceiling limit of investment in plant and machinery. In the beginning, for a small-scale industry the investment level was ₹ 5 lakhs and employment limit of less than 50 persons when using power and less than 100 persons without using power. As per Government of India Notification 1999, an industrial undertaking in which the investment in plant and machinery, whether held on ownership
terms or on lease/hire purchase basis does not exceed ₹100 lakhs is regarded as small scale industrial undertaking.

There was a drastic change in the definition of SSI in 2006. A comprehensive Act was enacted during the year 2006 named as Micro, Small and Medium Enterprises Development Act, 2006 which brings these three segments under a single comprehensive legislation. The micro and medium enterprises have been defined for the first time in India. This Act came into effect from 2nd October, 2006. This Act provides for establishment of a Statutory National Board for Micro, Small and Medium Enterprises to take measures for promotion, development and enhancement of competitiveness of MSMEs. As per this Act, the term industries are replaced with the term enterprises. These enterprises have been classified broadly into two categories:

- Enterprises engaged in the manufacture / production of goods pertaining to any industries:
- Enterprises engaged in the providing / rendering of services.

**Definition on the basis of Investment:**

The following table shows the definition of Micro, Small and Medium term enterprises on the basis of investment excluding Land & Building.

<table>
<thead>
<tr>
<th>Types</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Upto ₹25 lakhs</td>
<td>Up to ₹10 lakhs</td>
</tr>
<tr>
<td>Small</td>
<td>More than ₹25 lakhs and upto ₹5 crore</td>
<td>More than ₹10 lakhs and upto ₹2 crore</td>
</tr>
<tr>
<td>Medium</td>
<td>More than ₹5 crore and upto ₹10 crore</td>
<td>More than ₹2 crore and upto ₹5 crore</td>
</tr>
</tbody>
</table>

*Source: The Micro, Small and Medium Enterprises Development Act, 2006*

**Definition of Small Scale Industry:**
Village and small scale industries are defined in terms of investment in plant and machinery under section II B of Industries (Development and Regulation) Act 1951. The limit is revised from time to time to offset the impact of inflation and to meet the technological needs.

Village industry is the one which is run by an individual with the help of his family members with very little capital. Most of the Village industries do not use power. According to the Fiscal Commission (1949-50) “Village industry is an industry which is run either as whole-time or part-time occupation with the full or partial help of the members of the family”. These industries are mostly run by the artisans in their own homes. The use of power and machines in these industries are very limited. The products produced in Village industries are usually to satisfy the local demands. Number of hired-labour in this sector is very limited and the capital Investment is also small. They are mostly located in villages and rural areas.

According to the Economic Commission of Asia and the Far East (ECAFE) “Village industries are those industries which are run fully or partially with the help of family members” In the words of Dhar and Lydall “Village industries are mainly traditional industries which produce traditional goods with the traditional techniques”. Examples of Village industries are khadi industry, handicrafts, handlooms, cane and bamboo base industries, pottery, black smithy etc.

In India, the first official criterion for small scale industry dates back to the second Five Year Plan when it was defined in terms of gross investment in land, building, plant and machinery and the strength of the labour force.

In 1955 Small Scale Industries Board defined small scale industry as “A unit employing less than 50 persons, if using power and less than 100 persons without the use of power and with capital assets not exceeding rupees five lakhs”.

The Ministry of Commerce and Industries modified the above definition in 1960 on the recommendation of the Small Scale Industries Board. According to it “small industries will
include all industrial units with a capital investment of not more than rupees five lakhs, irrespective of the number of persons employed”. Thus, this revision has enlarged the scope of employment opportunities in small scale sector, but the investment ceiling remains unchanged.

In 1972, the Government of India constituted a Committee for drafting legislation for small-scale industries, which suggested that the small-scale industries might be classified in to the following three categories.

a. Tiny Industry: - Tiny units are those in which the investments in fixed assets are less than ₹ 1 lakh or Rs. 4000/- per worker and the annual turn-over does not exceed ₹ 5 lakh.

b. Small Industry:- Small industry is one in which capital investment in fixed assets does not exceed ₹ 7.5 lakh irrespective of the number of persons employed.

c. Ancillary Industry: - An ancillary unit is the one rendering services and supplying or proposing to render 50 percent of its production or total services, as the case may be, to other units for production of other articles. Moreover, such a unit should not be owned or controlled by any undertaking. The limit for investment in fixed assets of such an industry is fixed at ₹ 10 lakh.

The Industrial Policy of 1980, announced on July, 23 has revised the ceiling limits of investment in plant and machinery for small scale industries. According to the Industrial Policy resolution of 1980, the investment limit in small scale industries has been increased with a view to develop these industries. In case of small ancillary industries, the limit has been revised from ₹ 15 lakh to ₹ 25 lakh and for tiny industries it has been raised to ₹ 12 lakh from ₹ 1 lakh.

In March 1985, the Government has again revised the investment limit of small scale undertakings to ₹ 35 lakh. As per the Industrial Policy Resolution of 1990, the investment limit in plant and machinery for small scale industries has been raised to ₹ 60 lakh and correspondingly for ancillary units from ₹ 45 lakh to ₹ 75 lakh.

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In 1997, on the recommendation of Abid Hussain Committee, the Government has raised the investment limit in plant and machinery for small units and ancillaries from ₹ 60/75 lakh to ₹ 3 crore and that for tiny units from ₹ 5 lakh to ₹ 25 lakh.

In 2000, the Union Government has reduced the investment limit in plant and machinery for small scale units from ₹ 3 crore to ₹ 1 crore. However the investment ceilings for tiny industries remain unchanged to ₹ 25 lakh.

In accordance with the provision of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006. The micro, small and medium enterprises are classified into two classes.

a. Manufacturing Enterprises - The enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

b. Service Sector - The enterprises engaged in producing or rendering of services and are defined in terms of investment in plant and machinery.

The limit for investment in plant and machinery for manufacturing and service enterprises are given in table III.1.1 & table III.1.2

<table>
<thead>
<tr>
<th>TABLE- III.1.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENT LIMIT IN MANUFACTURING SECTOR</td>
</tr>
<tr>
<td>Enterprises</td>
</tr>
<tr>
<td>Micro Enterprises</td>
</tr>
<tr>
<td>Small Enterprises</td>
</tr>
<tr>
<td>Medium Enterprises</td>
</tr>
</tbody>
</table>

Enterprises Investment in plant and machinery Micro-enterprises does not exceed twenty five lakh rupees. Small enterprises More than twenty five lakh rupees but does not exceed
five crore rupees. Medium enterprises More than five crore rupees but does not exceed ten crore rupees. Source: Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

Enterprises Investment in equipments Micro Enterprises Does not exceed ten lakh rupees: Small Enterprises More than ten lakh rupees but does not exceed two crore rupees Medium Enterprises More than two crore rupees but does not exceed five core rupees

The definition of small scale industries has undergone changes over the years in terms of investment limits to boost up the development of this sector (Table-III.1.3).

**TABLE- III.1.3**

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>Investment limits in plant and machinery</th>
<th>Additional Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1955</td>
<td>Up to ₹ 5 lakhs</td>
<td>Less than 50/100 persons</td>
</tr>
<tr>
<td>2</td>
<td>1960</td>
<td>Up to ₹ 5 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>3</td>
<td>1966</td>
<td>Up to ₹ 7.5 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>4</td>
<td>1975</td>
<td>Up to ₹ 10 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>5</td>
<td>1980</td>
<td>Up to ₹ 20 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>6</td>
<td>1985</td>
<td>Up to ₹ 35 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>7</td>
<td>1991</td>
<td>Up to ₹ 60 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>8</td>
<td>1997</td>
<td>Up to ₹ 3 crore</td>
<td>No conditions</td>
</tr>
<tr>
<td>9</td>
<td>2000</td>
<td>Up to ₹ 1 crore</td>
<td>No conditions</td>
</tr>
<tr>
<td>10</td>
<td>2006</td>
<td>Up to ₹ 5 crore</td>
<td>No conditions</td>
</tr>
</tbody>
</table>

Source: Compiled from various Acts and Notifications.

At present small scale industry (Micro, Small and Medium Manufacturing Enterprises) is defined as an industrial undertaking which is engaged in manufacturing, preservation, processing, mining and quarrying or assembling and in which the investment in fixed assets in plant and machinery whether held on ownership terms, on lease or on hire
purchase does not exceed ₹ 5 crore subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertakings.

Small scale service sector enterprises (Micro, Small and Medium Enterprises) is defined as an enterprises engaged in producing or rendering of services of which investment in plant and machinery does not exceed ₹ 2 crore.

**Village Industry:**

Developing self-employment opportunities in rural areas through Khadi and Village Industries (KVI) is one of the important programmes for rural development through rural industrialization. The KVI programme has reached 248,000 villages in the country providing employment to about 6,015,000 people in rural areas. Half of the beneficiaries are women and one-third is scheduled caste (SC) or scheduled tribe (ST) artisans.

Khadi and Village Industries Commission (KVIC), established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the Ministry of Micro, Small and Medium Enterprises (MSME), engaged in promoting and developing khadi and village industries for providing employment opportunities in the rural areas, thereby, strengthening the rural economy.

KVIC has been identified as one of the major organizations in the decentralized sector for generating sustainable non-farm employment opportunities in rural areas at a low per capita investment. It undertakes activities like skill improvement, transfer of technology; research and development, marketing, etc, and helps in generating employment/ self-employment opportunities in rural areas.

KVIC has drawn plans to generate 2 million additional employments. As a concerted effort of KVIC to bring the weaker sections of the society in the mainstream of rural economy, it is providing additional 5 per cent margin money to SC/ST, other backward classes, physically handicapped, ex-servicemen, women, minority and beneficiaries in hill and
border areas, North-Eastern region and other remote areas, for setting up of village industry projects.

**Definition of Village Industries:**

The Central Government has given its consent to the new definition of a Village Industry. According to it, “A Village Industry is one, which is started in rural area, with population not exceeding 20,000 and in which production is carried and service rendered with or without the use of power and in which the capital investment (in Tools, Equipments, Machinery, Shed, Building etc.) is not more than ₹ 1,00,000/- per person or worker.”

*(Annual Report of KVIB Mumbai)*

Rural industries are usually those industries which are engaged in manufacturing, processing, preservation and servicing in village and small towns involving utilization of locally available natural resource and for human skills and small amount of capital. The various rural industries can be broadly classified into three categories, viz., (i) Cottage industries, (ii) Agro-based industries, and (iii) Small scale industries.

(i) Cottage industries are mostly traditional industries employing traditional methods to produce traditional items. These are essentially household enterprise employing little or no hired labour.

(ii) Agro-based industries depend not only on the outputs of agricultural and allied activities but also on the inputs of agriculture like agricultural equipment, fertilizers and pesticides etc. The Planning Commission has set forth criteria for distinguishing agro-industries as industries which : (a) encourage greater input in agriculture, (b) lead to better procession and conversion of agricultural commodities, (c) ensure high returns of processed goods, and / or (d) increase agricultural production.

(iii) Small scale industries are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed ₹ 35 lakhs. These would, inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary
units the investment in plant and machinery (original cost) should not exceed ₹ 40 lakhs to be classified under small scale industries.

The Fiscal Commission remarks over the distinction of Village and small scale industry is that “Village industries are normally associated with agriculture in rural areas and provide part-time employment to the agricultural labourers, while small scale industries are established in urban and sub-urban areas and provide full time employment to the labourers”.

- The main difference as mentioned in First Five Year Plan (1951-56) between Village and small scale industries are:

  - Village Industries are mainly located in villages although they are scattered all over the country while small-scale industries are mostly located in urban and suburban areas.

  - Village industry normally do not employ hired-labour as these units are primarily run by the members of the family at their own premises while small-scale industries produce goods with partially or wholly mechanized equipment employing outside labourers. Negligible or no capital is invested in Village industries and production is done by hand with simple tools.

  - Small scale industrial units employ wage earning labour and production is done by the use of modern techniques which involves capital investments.

  - Small-scale industrial units use modern sophisticated machines run by power while in Village industries the production is done by hand without the use of power.

  - The products of Village industries usually meet local demands and supply ancillary goods to small-scale industries while the products of small-scale industries meet the demands for a larger area.
Small scale industries are located as separated establishment but Village industries are located in the homes of the artisans.

Traditional goods like khadi, mattress, shoes, candle, cane and bamboo products are produced in Village industries while small-scale industries produces many modern goods like radio, television, mixer-grinder etc.

III.2 Problems of Village Industries:

No doubt the involvement of village industries in ameliorating the condition of the village people is of great importance. They can play their appropriate role if they are run on sound lines. It is, therefore, necessary to identify various problems being faced by these industries which can be classifies as under –

**Non availability of Raw Material:**

The important problems faced by village industries are like non availability of raw materials and their exorbitant prices. Often, small industries do not get raw material in time. As a result, these industries very often fail to produce goods in requisite quantities of good quality and at cheap rate.

**Inadequate and Exploitative Market:**

Most of the village industries are forced to restrict their sales in the local markets. In absence of regulated market they have to sell off their goods at relatively cheap rates. Besides, the producer wastes his time in marketing which could be better used for production. Inadequate and unsecured marketing results in low prices and wastage of time, which in turn lead to little production and of low quality.

**Outmoded and Traditional Technology:**

The Village industries still depend on outmoded and traditional technology which leads to poor productivity and poor quality of goods produced. Poor artisans are neither able to buy new equipments, nor do they know much about new methods and technology.
Shortage of Finance:
One of the major requirements of the village industries like any other economic activity is credit and it is extremely difficult and expensive for the poor, resourceless artisans to secure adequate capital on reasonable terms for carrying on their traditional activity in absence of adequate and timely availability of credit facilities the production process gets affected adversely. The bankers, due to their very little acquaintance with those activities, find it difficult to understand their business, organise their activities and finance them in a systematic manner.

Competition with Large-scale Industries:
Village industries cannot withstand competition offered by the large scale industries. Large scale industries, organised as these are on modern lines, using latest technology and having access to many facilities can easily outsell the small scale producers.

Problem of power:
Village industries are not concentrated at a particular place due to its nature. Shortage of power supply invariably affects the production cycle of small industry adversely. The small enterprises cannot afford to go in for alternatives like installing own thermal units because of heavy costs involved in it.

Other Problems:
Besides the above mentioned problems the small industries also face the problem of under utilization of the capacity of this sector, local and other taxes which result in raising the sale price adversely affecting the marketability of their goods, problem of export promotion, lack of transport facilities, lack of technical know-how, widely scattered nature of industry and illiteracy and inability of the artisans.

III.3 Problem of Small Scale Industries in India:
Small scale industries in India have achieved a phenomenal growth in number of units, its employment, production and export. Therefore, the government in all the years has been taking a number of steps for the promotion of these industries. The various committees were constituted for the revision and implementation of the various programmes of the government to make them more effective. But unfortunately such a vital sector with so much protection, care and encouragement is not free from problems. A study group on the development of small enterprises set up under the chairmanship of Dr. S. P. Gupta, member of Planning Commission, in 2001, to look into the problems of the SSI sector, observed that problems of small industries were both external and internal. External problems are those related to the availability of power and other infrastructural facilities. Internal problems affecting the small scale industries are relating to organisation, structure, production, distribution etc. Internal problems are those which are within the control of the industry. External problems, on the other hand, are those on which the unit has no control. A brief account of the major problems both external and internal of small scale industries in India as revealed by this study are discussed in the following section.

**Location Disadvantage:**

Entrepreneurs of small scale industries are facing the problem of selecting a proper location for their unit. The choice of a location for the unit involves consideration of many factors such as availability of infrastructural facilities, the cost of acquisition of land, availability of labour, proximity to market etc. All this involve a great deal effort on the part of entrepreneurs and requires the services of experts. However, a genuine attempt with regard to selection of an ideal location is usually lacking in small firms. This in-turn brings many hardships to the units such as difficulty in selling products, scarcity of skilled labour, heavy cost of production etc. Absence of adequate funds at the disposal of the entrepreneurs prohibits them to a great extend from finding a suitable place for locating their units.

**Problems Relating to Raw Materials:**
The quantity, quality and regularity of supply of raw materials are problems of small industries. Of these the scarcity of raw material is a common problem in almost all the small firms. Because of the small size and weak financial position small scale industries have to depend on middlemen to get raw materials. Such an arrangement will result in high cost and shortage of raw materials. This will affect the profitability of the concern. Scarcity of raw materials is acute in those units where they have to face competition from large scale industries. Moreover, lack of finance may create a roadblock for searching and arranging alternate sources of raw materials.

**Inadequate Funds:**

Another potential problem encountered by small unit is inadequate amount of funds. Small scale units require funds for meeting long-term and short term capital needs. Most of the resources of small firms are out of owned capital and loans from friends and relatives. Because of weak financial base, they have to approach moneylenders. But the high interest rate charges by these moneylenders make this source less attractive. Banks and other financial institutions are following security based lending and most of the small units are unable to provide adequate collateral securities to obtain enough loan. All these lead to security of finance for small scale industrial units.

**Technological Problems:**

The Revolutionary technological changes adversely affect the small scale industries. Introduction of latest technology, which alone can ensure quality and high productivity, is absent in SSI units. This will lead to the low quality of product and high cost of production. Adoption of modern technology is either disliked by the entrepreneurs or not feasible, as it requires high financial commitments. In both cases it is harmful to the SSI units for their survival especially in the present scenario. Many units are suffering from shortage of finance required for adopting modern technology as well as expansion of business.

**Marketing Problems:**

This is one of the important areas responsible for the success and growth of SSI units. However, the SSI units have to face many adversities in the performance of this function.
They have to face competition from large and medium scale industries for marketing their products. This will reduce the bargaining power of small scale industries. A survey had been conducted by the Federation of Indian Chamber of Commerce on marketing problems of small scale units. It revealed that marketing problems were faced both by professional and non-professional entrepreneurs. The poor quality control system, uneconomic pricing, inadequate facilities of market research, inadequate funds to launch heavy advertisement campaign etc are the other causes which make performance of marketing function ineffective in SSI sector.

**Poor Managerial Skill:**

The Management is an area where a small scale industrial unit confront the greatest difficulty. The success of an industry depends upon good management. A successful manager is one who anticipates the problems of the business unit and prepares himself and makes others prepare to face the problems efficiently and effectively. The function of management consists of the collection of relevant data and utilising them to take quick decisions for the attainment of the desired goals. The success of an industry is largely determined by satisfactory management of finance, inventories budgeting, marketing and manpower. Being a small scale unit, it cannot afford the services of well trained managers who demand high salaries. The owner himself has to perform all the functions by himself in carrying on his business. However, lack of professionalism makes his efforts unproductive.

**Industrial Sickness:**

One of the major problems of SSI sector is the growing incidence of industrial sickness. The major causes of sickness in this sector are mismanagement, inadequate finance, marketing, diversion of funds, deficiency of demand etc. The sickness in this sector has a direct impact on production and employment. The numbers of sick units are increasing year by year. The statistical data available indicates that numbers of sick unit increased from 23,149 in 1980 to 8,68,021 in 2002.
Poor collection policy, poor industrial relations, lack of standardisation and trademark, use of obsolete machinery, outdated production process, improper layout, heavy inventory build up etc. are the other internal causes that make the SSI units economically nonviable.

**External Problems:**

The external problems are those which are beyond the control of the units. Such problems are infrastructural bottlenecks, power shortage, Government control and policies, fiscal duties, procedural delays in sanctioning licences, encroachment of large and medium scale units in the areas reserved for SSI sector etc.

Any problem, whether of production, raw material, marketing, management etc. faced by the entrepreneurs in its ultimate analysis turns to be the problem of finance. The weak financial position, difficulty in obtaining finance from financial institutions and other sources of finance, siphon away of funds etc. are the root causes for creating financial problems in SSI sector. The Third All India Census of SSI 2001-02, revealed that financial problem especially inadequate working capital is the main problem of small scale industrial units in India.

In this context, it would be very relevant to examine up to what extend various financial institution have succeeded in alleviating the financial problems of the small entrepreneurs and thereby promoting the growth of small scale sector. This is one of the major considerations of the present study.

**III.4 Problems of MSMEs:**

The eleventh five-year plan recognises the MSME sector as one that needs infrastructure, credit and policy support. Yet, in successive five-year plans, this sector has not received its due. MSMEs still continue to face problems in their operations. Inadequate infrastructure and credit facilities are the major problems. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials. It is
different to sell the output at remunerative prices and spend much on advertising, marketing research, etc.

MSMEs also face tough competition from large firms. There is lack of trained managerial and technical personnel as MSMEs cannot afford to pay higher salaries to employees and cannot spend much on training. Also, these are still reluctant to adopt new technologies and methods of management.

The primary responsibility for promotion and development of MSMEs is in the hands of the concerned state government as these play a pivotal role in the overall industries development of the country. MSMEs have the significant contribution to the national income through industrial production and exports. The sector not only provides employment opportunities to millions of unskilled and semiskilled people across the country – mainly village artisans and rural people – but also supports large enterprises by supplying raw materials, components and finished parts. These also help in building entrepreneurial base in the country by developing and nurturing talents and skills of small-scale entrepreneurs, MSMEs check the problem of economic concentration in the hands of few. The labour intensity in this sector is considerably high – almost four times, as compared to larger enterprises. Thus the sector has been given a priority sector status by both central and state governments.

**III.5 Industrial policy:**

Industrial policy, role of industries in National economy, industrial development through five-year plans in India, large and small-scale industrial development in India, Maharashtra and Marathwada etc. are discussed.

The concept of Industrial policy is comprehensive and it covers all those producers, principles, policies, rules and regulations which control the industrial undertakings of a country and shape the pattern of industrialization. It incorporates fiscal and monetary policies, the tariff policy, labour policy and government's attitude not only towards external assistance but the public and private sector also.

**III.5.1 Industrial policy resolution 1948:**
The industrial policy resolution of April 1948 contemplated a mixed economy, rescuing a sphere for the private sector and another for public sector. The industries were divided into four categories:

(i) The manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport were to be the exclusive monopoly of the central government.

(ii) The second category covered coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless apparatus etc. New undertakings in these industries could henceforth be undertaken by the state.

(iii) The third category was made up of industries of such basic importance that the central government would feel it necessary to plan to regulate them.

(iv) The fourth category, comprising the remainder of the industrial fields was left open to private enterprise individual as well as co-operative.

III.5.2 Industrial policy Resolution 1956:

A second industrial policy resolution was adopted in April 1956. Important provisions of 1956 Resolution were:

(i) New classification of Industries: These categories were:

(a) Schedule A: those, which were to be an exclusive responsibility of the state. This group includes seventeen industries like areas and ammunition, atomic energy, iron and steel, heavy casting etc.

(b) Schedule B: Those which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state. Twelve industries like mining, aluminums and other non-ferrous-metal not included in schedule A.

(c) Schedule C: All the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector. Schedule C category industries, which consisted of the rest, had to fit into the framework of social and economic policy of the state and to be subject to control in the theme of the industries Act.
ii) Fair and non-discriminatory treatment for the private sector: When these exist in the same industry both private and publicly owned units, it would continue to be the policy of the state to give full and non-discriminatory treatment to both of them.

iii) Encouragement to village and small scale enterprises: The state would support cottage and village and small-scale enterprises by restricting volume of production in the large-scale sectors by differential taxation or by direct subside.

iv) Removing regional disparities: The resolution fully supported the idea that only by securing a balanced and co-ordinate development of the industrial and the agricultural economy in each region can attain higher standard of living.

v) Attitude towards foreign capital: The Resolution made it amply clear, "that as a rule, the major interest in ownership and effective control should always be in Indian hands. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon." Thus while recognizing the need for foreign capital in the industrialization of the economy, the government insisted upon the progressive Indianization of foreign concerns.

III.5.3 Industrial policy 1977:
In December 1977 the Janata Government announced a New Industrial Policy by way of a statement in the parliament. Before 1977 the Government policy in the sphere of industry had been governed by industrial policy Resolution of 1956. This industrial policy despite some desirable elements resulted in certain distortions viz 'Unemployment has increased rural-urban disparities have widened and the rate of real investment has stagnated. The growth of industrial output has been no more than three to four percent per annum on the average. The incidence of industrial sickness has become widespread and some of the major industries are worst affected". The main elements of the new policy were:

Development of small-scale sector:
The main thrust of the policy. "The main thrust of the new industrial policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the government that whatever can be produced by small
and cottage industries must only be so produced." Small-scale sector classified into three groups i.e. cottage and household industries, tiny sector investment up to ₹ 1 lakh and small units investment up to ₹ 10 lakh, The purpose of the classification was to specially design policy measures for each category. Areas for large scale sector: According to the 1977 Industrial policy statement, the role of large scale industry would be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small-scale and village industries and to the strengthening of the agricultural sector.

Expanding role for public sector: The 1977 industrial policy statement specified that the public sector would not only be the producer of important and strategic goods of basic nature, but it would also be used effectively as a stabilizing force for maintaining essential supplies for the consumer.

1. Approach towards foreign collaboration: The industrial policy stated in areas where foreign technological know-how is not needed; existing collaboration would not be renewed. The policy statement further elucidated as a rule, majority interest in ownership and effective control should be in Indian hands though the Government may make exceptions in highly export-oriented and/or sophisticated technology areas.

2. Approach towards sick units: The policy statement suggested a selective approach on the question of sick units. It mentioned, "While the government cannot ignore the necessity of protecting existing employment the cost of maintaining such employment has also to be taken into account. In many cases, very large amounts of public funds have been pumped into the sick units which have been taken over but they continue to make losses which have be to financed by the public exchanger. This process cannot continue indefinitely."

The Janata's Industrial policy failed to impose a ban on multinationals or Indian big business to produce ordinary items like bread, biscuits, toffees, footwear, leather products etc., which should have been legitimately reserved for the small sector. Well-meaning critics welcomed many of the proposals of the 1977 industrial policy statement. It has given mere chance for the development of cottage industries.
III.5.4 Industrial Policy of 1980:

In Industrial policy 1980 suggested the following measures for the development of industrial sector.

i) There should be effective operational management of the public sector.

ii) Integrating industrial development in the private sector by promoting the concept of economic federalism.

iii) In order to boost the development of small-scale industries, government decided to increase the limit of investment in the case of tiny units from ₹ 1 lakh to 2 lakhs, ₹ 10 lakh to 20 lakhs in the case of small-scale units and in the case of ancillaries from ₹ 15 lakhs to 20 lakhs.

iv) The 1980 statement further simplified the procedure for regularization of unauthorized excess capacity. This facility would not be given in respect of items reserved for the small sector.

v) This policy has given automatic expansion facilities to the large-scale units. vi. In the case of existing sick undertakings which showed adequate potential for revival, the government would encourage their merger with healthy units which were capable of managing the sick undertaking and restoring their viability. The management of sick units would be taken over only exceptional cases on grounds of public interest where other means for the revival of sick undertaking were not feasible.

The industrial policy 1980 was guided merely by consideration of growth. It liberalized licensing for large and big business but by blurring the distinction between small-scale and large-scale industries it sought to promote the latter at the cost of the former. Broadly speaking the industrial policy chose a more capital intensive path of development and thus, it underplayed the employment objectives.

III.5.5 Industrial Policy 1991:

The congress government led by Mr. Narasinha Rao announced the new industrial policy in July 1991. The main aim of the new industrial policy was:
a) To unshackle the Indian industrial policy from the cobwebs of unnecessary bureaucratic control.

b) To remove restrictions on direct foreign investment as also to free the domestic entrepreneur from the restriction from MRTP act.

c) To introduce liberalization with a view to integrate the Indian economy with the world economy.

d) The policy aimed to shed the load of the public enterprises, which have shown a very low rate of return or were incurring losses over the years.

All these reforms of industrial policy led the government to take a series of initiatives in respect of policies in the following areas:

a. Industrial licensing
b. Foreign investment,
c. Foreign technology policy, public sector policy, and MRTP Act.

The new industrial policy announced by the government of India in July 1991 fulfilled a long-felt demand of the corporate sector for declaring in very clear terms that licensing was abolished for all Indian industries except 18 industries like, coal, petroleum, sugar, motor cars, chemicals etc.

In conclusion, it may be stated that the new industrial policy may be able to attract foreign investment and give a boost to domestic investment, but whether it will lead to more employment along with higher output growth is doubtful.

III. 6 The role of industries in National Economy.

"It is only when India has acquired the ability to design, fabricate and erect its own plants without foreign assistance that it will have become a truly advanced and industrialized country."

This statement of Pandit Jawaharlal Nehru indicates the importance of industries in Nation's economy Industrialization has a major role to play in the economic development of the underdeveloped countries. The gap in per capita income between the developed and underdeveloped countries is largely reflected in the disparity in the structure of their
economics, the former are largely industrial economies while in the latter production is continued predominantly to agriculture.

III.7 Industrial Development through five-year plans in India: -

The industrial pattern in India on the eve of planning was marked by low capital intensity, limited development of medium sized factory enterprises and imbalance between consumer goods and capital goods industries. It would be of interest to examine the extent, to which the five-year plans have made an attempt to improve the industrial pattern, correct its lopsidedness and develop the capital goods sector.

III.7.1 Industries and the first five year plans (1951-1956):

During the first five-year plan itself, no big effort was contemplated to industrialize the economy; rather the emphasis was to build basic services like power and irrigation so that the process of industrialization is facilitated. A total investment about Rs. 800 crore was planned for industry, out of which investment in the public sector was to be of the order of Rs. 94 crore only.

Actual public sector outlay was only about Rs. 57 crore and on new projects, replacement and modernization only Rs. 340 crore were actually spent. Thus, there was shortfall in investment programmes. Despite the fact that the first plan only aimed to utilize the existing capacity to the full, the general index of industrial production recorded an increase of 39 percent during the plan or a compound annual growth rate of 7 percent. This was no mean achievement.

III.7.2 Industries in the Second Plan (1956-1961):

This plan was based on industrial policy Resolution 1956; which envisaged a big expansion of the public sector. Heavy industry was given priority in the second plan. Actually about Rs. 870 crore were invested in public sector during the period of second five-year plan. Nearly Rs. 265 crore were invested in village and small-scale industries in this plan. Three steel plants like Raurkela, Bhilai and Durgapur were started in this plan.

During this plan steel production and heavy engineering production increased in second plan. The expansion of industry took place in second plan. Production capacity of heavy industry was also increased. There was also rapid expansion of machine-building
industries for use in agricultural transport and for such industries as chemicals, textile, jute, cement, tea, sugar etc. Good progress was also recorded in modernization and re-equipment of important industries such as jute, cotton textiles and sugar.
In the sphere of village and small industries substantial progress was recorded. About 60 industrial estates comprising 1000 small factories were set up. The period also witnessed the rise of a vigorous class of small entrepreneurs. In a number of items such as machine tools, sewing machines, electric motors, fans, bicycles, hand tools, Production etc. increased from 24% to 50% during the period of second five-year plans.

III.7.3 Industries and the third five year plan (1961-66):
The third plan saw the beginning of long-term perspective planning as an instrument to achieve the objective of an integrated growth of industry balanced with agriculture with base created in the first two plans, the third plan called for the maximum rate of investment to strengthen industry power and transport and hasten the process of industrial and technological change.
During this plan Rs.1700 crore were spent on public sector and about Rs.1300 crore in the private sector. The key role in industrial development programme was for the public sector. An overall taught of 70 percent increase in industrial production was envisaged in the plan. For Jawaharlal Nehru, the first prime minister of India, the development of heavy industry was synonymous with industrialization. He stated, "If we are to industrialize, it is of the primary importance that we must have the heavy industries which build machines." Except for the year 1965-66, industrial output increased steadily at the rate of 7.6% per annum. The achievement was lower than the average of 14% per annum visualized in the plan. But the growth of output in two major consumer goods industries - textiles and sugar was rarely 20% and 13% respectively over the 5-year period.

III.7.4 Industries and the Fourth Five Year plan (1969-74):
The fourth plan intended to complete industrial projects undertaken in the third plan. It also aimed to enlarge capacities in export promotion and import substitution industries. In fourth plan about ₹ 3050 crore was invested in small and village industries on an average, the growth rate in industry was around 5% which was much below targeted growth rate of 8% envisaged in the plan.
III.7.5 Industries in the fifth plan (1974-78):

The following objectives were given in the fifth plan.

i) Rapid growth of core sector industries by giving high priority to steel, non-ferrous metal, mineral oils, fertilizers, coal and machine building.

ii) Development of industries, which promise a rapid diversification and growth of exports.

iii) Increasing production of industries supplying Mass consumption good viz cloth, edible oils etc.

iv) Restraint on the production of essential goods, except export.

v) Development of small sector in rural area. About ₹ 9600 crore were spent in public sector and ₹ 535 crore for village and small industries. The average annual industrial growth was of the order of 5.3% during 1974-75 to 1977-78 much below the target.

III.7.6 Industries in the sixth plan (1980-85):

The sixth plan intended to work within the overall developmental strategy particularly with regard to the objectives of structural diversification, modernization and self-reliance. This policy also includes other elements.

a) To meet foreign exchange requirements, export of engineering goods and industrial products, as also project exports could be stepped up.

b) A judicious blend of permitting import of contemporary technological and promoting the development of indigenous know-how through domestic research and development.

c) New strategies for development of backward regions could be devised.

The overall outlay envisaged in the sixth plan on industry and minerals including village industry was ₹ 22,200 crore i.e. 22.8% of the total outlay of the sixth plan.

A review of the progress of the industrial growth during the sixth plan reveals that as against the target of 7% growth in industrial productions, the growth rate achieved however was only 5.5%. This was lower than the trend growth rate of 6% witnessed in the earlier three decades.
III.7.7 Industries in seventh plan (1985-90):
In consonance with the guiding principles of the seventh plan viz to achieve growth with social justice and improving productivity, the objectives of the development programmes in the industrial sector were:

a) To ensure adequate supply of wage goods and consumer articles of mass consumption at reasonable prices and of acceptable quality.
b) To maximize the utilization of the existing facilities through restructuring improved productivity and up gradation of technology.
c) To concentrate on development of industries with large domestic market and export potential to emerge as would leaders in them.
d) To usher in 'sunrise' industries with high growth potential and relevance to our needs.
e) To evolve an integrated policy towards self reliance in strategic fields and opening up of avenues for employment of skilled and trained manpower.

Total investment in the industrial sector was ₹ 22,4607 crore or 12.5% of the total plan estimate. Seventh plan reveals that the annual growth rate of the industrial sector including mining, manufacturing and electricity generation during the seventh plan period was 8.5% which though marginally lower than targeted 8.7% was much higher than the 3.5% achieved during the sixth plan.

III.7.8 Industries in the Eighth Plan (1992-97):
The Eighth Plan was formulated under a new environment, when a number of reforms in industrial, fiscal, trade and foreign investment policies were introduced the economy-commonly called economic liberalization, in this background there was emphasis on quantative targets and planning had become more "indicative". Eighth plan allocated a total investment of ₹ 38,083 crore for industry and mineral production (at 1991-92 prices). It may be noted that overall rate of industrial production increased from 2.3% in 1992-93 to 6% in 1993-94, 9.1% in 1994-95 and a respectable 13% in 1995-96. The year 1996-97 witnessed lower growth rate in all sub-sectors of the industry. A number of industries could not face foreign competition as a result in import duties. Inadequate availability of
infrastructure like power and transport bottlenecks and inadequate handling facilities at ports, also affected industrial production. It is really disappointing that the addition to power capacity in the Eighth plan was less than that in the seventh plan even in absolute terms.

**III.7.9 Industries during the Ninth Plan (1997-2002):**

Ninth plan targeted a growth rate of 8% for industry, but realized growth rate was only 5% which was even lower than the growth rate of 7.3% realized in eighth plan. In this way it may be stated that the ninth plan was a failure.

Ninth plan allocated ₹ 69,972 crore for industry at 1996-97 prices. Reviewing the internal and external factors for the slowdown during the ninth plan, the tenth plan states. "The industrial slowdown is widespread covering all broad sectors, e.g. manufacturing, electricity and mining and all end use based groups such as capital goods, and consumer goods (both durables and non-durables). The slowdown in domestic and global demand appeared to be a major factor constraining industrial growth. Another major reason has been the decline in investment, noticeably by the private sector".

The difficulties caused by internal factors were aggravated by the slow growth of the world economy, which resulted in a substantial slowdown in manufacturing exports.
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Chapter – IV
Organizational Arrangement for Village & Small Scale Industry

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