CHAPTER – I
INTRODUCTION

Industrialization is recognized as one of the development strategies all over the world. In the process of industrialization people and their abilities play a significant role and if human factor is neglected it will weaken the economic process of any country. Every country of the world has been drawn into the great role of industrialization. Some people may argue that industrial technology will destroy social and political institutions, but the benefits of industrialization are no longer to be debated. Developing economies have been confronted with a conflict between growth and employment in their attempts at industrialization, as these countries have to achieve simultaneously higher levels of employment. Thus, the strategy and technology appropriate to develop countries are entirely different from those considered to be appropriate to the advanced countries.

In India, the earlier development planning, keeping its stress on the development of large scale industry, failed to solve the problems like balanced regional development, gainful employment to millions of the unemployed and equitable distribution of benefits of industrialization. With industrial development mostly confined to a few metropolitan cities and big towns of the benefits industrialization have hardly percolated, it has been realized that the pattern of industrialization in western countries is not applicable in this country due to the fact that India is an over-populated country with wide regional imbalances and scarcity of capital. However, the welfare objectives enshrined in the constitution imply that in the process of development, the common
man’s welfare is to be given top priority. The guiding principle of the socialistic pattern of society also dictates that the small scale industries should be recognized as the means to achieve equitable growth.

Industrialization is a process in which the product changes from time to time after strategic analysis, thus contributing economic gains and industrial progress\(^2\). The 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 number of industrial goods flow into the consumption basket of the people. The net economic impact of industrialization must travel down ultimately to maximum number people\(^4\). For any country its industrial advancement is the main factor for achieving honourable place in the world map. Absence of industries makes a nation dependent on other countries infringing its dignity. Without industrialization no country can have political or economic freedom which can improve the standard of living of its people rapidly\(^3\).

The micro, small and medium enterprises are more labor-intensive and capital-saving compared to the large firms. They are better suited to the labor-abandoned economy like India. Micro, small and medium enterprises play a strategic role in the progress of the country. These industries by and large represent a stage in economic transition from traditional to modern technology. The transitional nature of this process is reflected in the diversity of these industries. Micro, small and medium enterprises use simple skills and machinery while many others use modern and sophisticated technology. The
challenge of economic growth is to accelerate the productivity of agriculture and industry by improving their techniques of production. As far as industries are concerned, this will involve adoption of a progressively superior technology, particularly in semi-urban and rural areas.

In this chapter an attempt is made to present the origin and growth of small-scale industries in India with reference to five-year plans and industrial policies. In addition to this the institutional framework and problems faced by small scale industrial units are also highlighted.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

The concept and definition of small industries have changed over the years with the changing circumstances and pressing problems of the Indian economy. Several institutions, government agencies and individuals had defined small scale units in different ways.

SMALL INDUSTRIAL UNITS (1948):

The factory sector units are registered under the factories act of 1948 from organized sector. All traditional units and the remaining units of small industries segment not covered under the factories Act of 1948 constitute the unorganized sector. Such units generally employ less than 10 workers if power is used and less than 20 workers if power is not used.

SMALL INDUSTRIAL UNITS (1966):

The definition of small enterprises has changed and now refers to small industries with less than Rs.5 lakh capital investment, with a fixed capital of 10 lakh.
SMALL INDUSTRIAL UNITS (1972):

These are industries in which total investment in fixed assets in plant and machinery whether held on ownership or by lease or by hire purchase does not exceed Rs.35 lakh. In the same year, ancillary and tiny industries have been defined as having investment in plant and machinery not exceeding Rs.45 lakh and Rs. 2 lakh respectively.

SMALL INDUSTRIAL UNITS (1990):

According to industrial policy statement -1990, the investment ceiling in plant and machinery for small industrial units (fixed in 1985) has been raised from Rs.35 lakh to Rs.60 lakh and correspondingly for ancillary units from Rs.45 lakh to Rs.75 lakh. The investment of tiny units has been increased from Rs.2 lakh to Rs.5 lakh. According to the modified definition an ancillary unit is one which sells not less than 50 percent of its manufactures to more industrial units.

UNION BUDGET (2002-03):

The union finance minister announced a change in the definition for the small industries, i.e. enhancement of small industries investment ceiling for specified hosiery/hand tool items. The investment limit in plant and machinery with regard to industrial undertakings, manufacturing specified items in the hosiery and hand tool sub sectors was enhanced from Rs.1 crore to Rs.5 crore.

MSMED ACT 2006:

According to micro, small and medium enterprises act the enterprises are broadly classified in terms of activity such as enterprises engaged in the
manufacturing /production and enterprises engaged in services while the manufacturing enterprises were defined in terms of investments in plant and machinery. The service enterprises are defined in terms of investment in equipments. The act has also defined medium scale enterprises for the first time. The enterprises are further classified into micro, small and medium categories.

The Investment limits of these enterprises are as follows:

**MANUFACTURING ENTERPRISES**

- Micro Enterprises - Investment up to Rs.25 lakh
- Small Enterprises - Investment above Rs.25 lakh and up to Rs.5 crore
- Medium Enterprises - Investment above Rs.5 crore and up to Rs.10 crore

**SERVICE ENTERPRISES**

- Micro Enterprises - Investment up to Rs.10 lakh
- Small Enterprises - Investment above Rs.10 lakh and up to Rs.2 crore
- Medium Enterprises - Investment above Rs.2 crore and up to Rs.5 crore

Investment limits were enhanced with the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act 2006. Government of India has adopted a policy best suited for the micro, small enterprises with the objective of to achieve 15 per cent annual growth rate, to increase employment generation and to create congenial and hassle-free environment. It helps the small scale sector to acquire new technology and skills, improve the export performance, promote linkage between the large and small scale sector and also to promote an appropriate institutional mechanism to revive sick industries.
The Government of India has undertaken several measures to promote the small scale industries through five year plans as this sector solves the unemployment problem, its contribution to the economy in terms of production and exports. Therefore, the planners stressed greater importance for the development of small industries. Many programs were implemented by the governmental authorities to develop these industries in the country during the various plan periods.

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total outlay</th>
<th>Allocation of small scale sector</th>
<th>% share of small scale sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>1960</td>
<td>5.20</td>
<td>0.27</td>
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<tr>
<td>Second Plan (1956-61)</td>
<td>4672</td>
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<td>1.20</td>
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<tr>
<td>Third Plan (1961-66)</td>
<td>8577</td>
<td>113.06</td>
<td>1.32</td>
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<tr>
<td>Annual Plan (1966-69)</td>
<td>6625</td>
<td>53.48</td>
<td>0.81</td>
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<tr>
<td>Fourth Plan (1969-74)</td>
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<td>96.19</td>
<td>0.61</td>
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<tr>
<td>Fifth Plan (1974-79)</td>
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<td>Annual Plan (1979-80)</td>
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<td>0.86</td>
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<td>Sixth Plan (1980-85)</td>
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<tr>
<td>Seventh Plan (1985-90)</td>
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<td>1120.51</td>
<td>0.62</td>
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<td>Eighth Plan (1992-97)</td>
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<td>Ninth Plan (1997-2002)</td>
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<td>Tenth Plan (2002-2007)</td>
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<td>Eleventh Plan (2007-2012)</td>
<td>1096890</td>
<td>10168.00</td>
<td>0.93</td>
</tr>
</tbody>
</table>

(iii) Eighth Five Year Plan, volume 1, Planning Commission, New Delhi, 2007-2012.
The plan outlay is shown in the table-1.1. It is observed that the financial outlay pertaining to small scale industries had registered an increasing trend with each plan reflecting the significance of this sector in the economic development of the nation.

**First Five Year Plan (1951-1956)**

During the first plan period, major steps were taken for the development of small industrial units by establishing the all India boards to advice and assist in the formulation of the developmental programs of small industrial units. Store purchase and replacement of imports were the two directions in which the demand for products of small industries could be deliberately developed. The establishment of new centers of small industrial production townships for providing valley products, training, research and development, arrangement of finance were the various aspects which were stressed in the first five year plan. A network of various all India boards such as, the Khadi and Village Industries Board, the Handloom Board and the Agriculture Board were established. Four regional small industrial service units were set-up to provide technical assistance to these industrial units.

The First Plan was not a comprehensive one and it was a rehabilitation plan to bring up the Indian economy which was ravaged by the partition of the country and the consequent refuge influx, the shortages that existed in the economy and to make up a sound base for the more rapid advance in future. Hence, the plan tried to lay the foundation for the improvement of the small industrial units. The total outlay for the small industrial units was Rs.5.2 crore.
during the First Plan period. The Karvey Committee was appointed by the Planning Commission in June 1955.

**Second Five Year Plan (1956-1961)**

The government wanted to implement the recommendations of Karvey Committee to avoid technological unemployment and to provide employment in traditional industries. The Second Five Year plan proposed an outlay of Rs.55.0 crore to small scale sector, but the actual expenditure incurred was Rs.44.4 crore. During the second plan period nearly 60 industrial estates were set-up with an expenditure of Rs.10 crore. At the end of the second plan, extension officers for industries were provided to 1650 development blocks out of 3110 blocks in India. During the period between 1956 and 1960, many small industrial units were established for the production of bicycles, sewing machines, machine tools, electric motors and electric fans were established. The production of bicycles in the small industrial sector increased from about 25,500 in 1956 to 2,28,000 in 1960 and of sewing machines from 23600 to 52000. The values of up-graded machine tools rose from Rs.1.3 crore in 1956 to Rs.4.0 crore in 1960. Through these programs the small industrial units provided full-time employment to 3 lakh persons.

**Third Five Year Plan (1961-1966)**

The main objectives of the small industries of the 3rd Plan were to improve the productivity of the workers, to enlarge the availability of institutional finances and the growth of small industrial units in rural areas and small towns. During the 3rd Five Year plan the outlay of Rs.84.6 crore was
proposed but the actual amount incurred was Rs.86.1 crore, i.e., excess of Rs.1.5 crore. During the 3rd Five Year plan and the Annual plan nearly 140,000 small industrial units were registered with the states industries directorates and 346 industrial estates were completed by the end of March 1969. The small industrial units’ set-up in these estates provided employment to 82700 persons. Their annual production of the small industrial units, during 1966-69 was Rs.1556 crore. The progress of small scale units in the Third and Annual plans has been quite satisfactory and greater success in urban areas than that of rural and semi-urban areas.

**Fourth Five Year Plan (1969-1974)**

The main objectives of the Fourth plan were to improve the production techniques of small industries to promote decentralization and dispersal of industries and to promote agro-based industries. To achieve the objectives an outlay of Rs.104.3 crore was proposed, but the actual expenditure incurred was Rs.70.3 crore with a gap of 34.0 crore.

The number of units registered on voluntary basis with the industries directorates of the states and union territories increased from Rs.2 lakh in 1969 to Rs.4.09 lakh in 1973. The total employment by these units was Rs.39.65 lakh; output and exports were Rs.7200 crore and Rs.538 crore in 1973-74. The annual production of the units in estates was increased by Rs.127 crore and employment by 23,30513. However, the pace of growth of most industries continued to be uneven in different states and union territories. Besides, this progress in realizing certain other objectives envisaged in the fourth plan
including the progressive improvement of skills and production techniques, promotion of industries in semi-urban and rural areas and rapid development of agro-based and ancillary industries had not been up to the expectations.

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

The principal objective in the Fifth plan for the development of small industrial sector was the removal of poverty and inequality in the living standards of those depending on traditional industries through creation of large scale opportunities, improvement of their skills and thereby to increase their earnings. With these objectives the government reserved 124 items exclusively for small industrial units and different programs were introduced for the development of ancillary units as feeder industries to large scale units. The fifth plan proposed an outlay of Rs.241.3 crore. But the actual expenditure incurred was Rs.221.7 crore with a gap of Rs.19.6 crore. The number of units registered on voluntary basis with the industries directorates of the state and union territories increased from Rs.4.09 lakh in 1973-74 to Rs.7.99 lakh in 1979-80. The total employment increased from 39.7 lakh in 1973-74 to Rs.65.00 lakh in 1979-80, an excess of 25.3 lakh. Output also increased from Rs.7200 crore in 1974-75 to Rs.19060 crore in 1979-80 an excess of Rs.4475 crore, and exports from Rs.538 crore in 1973-74 to Rs.1050 crore in 17-979-80, an excess of Rs.512 crore.

Nevertheless, some of the important objectives set for the small sector units are not fully achieved. The dispersal of small industrial units far away from the metropolitan area and large cities has not taken place to an
appreciable extent. Available data indicate that the industrially developed states along with Delhi accounted for nearly 67 percent of the registered small industrial units, which had come-up to 1976 and 75 percent of the employment generated by them.

**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 programs for the village and small industries sector were framed with the following objectives:

(i) Improvement in the level of production and earnings, particularly in the earnings of artisans, by up-grading skills and technologies and producer oriented marketing.

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

(iii) Ensuring a significant contribution to growth of manufacturing sector through full utilization of existing installed capacities.

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

(v) Creation of a viable structure of the village and small industries sectors so as to progressively reduce the role of subsidies.

(vi) Expand efforts in export promotion.
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 extensively 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 to minimize the number of contact points, District Industrial Centers were set-up. Transfer of research and technology to this sector added 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 middlemen and to provide, through the co-operative 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 (1985-1990)**

Within the overall objectives of food, work and productivity laid down in the seventh plan, this sector would contribute towards improving the economic and occupational profile of rural, semi-urban and weaker sectors of urban communities through promotion of village and small industrial activities. This sector would:

- Assist in the growth and widespread dispersal of industries
- Increase the levels of earnings of artisans
- Sustain and create avenues of self employment
➢ Ensure regular supply of goods and services through use of local skills and resources.

➢ Development of entrepreneurship in combination with improved methods of production through appropriate training and package of incentives.

➢ Preserve craftsmanship and art heritage of the country.

The 7th Plan would focus on up-gradation of technology by strengthening creation of tooling and workshop facilities for development of prototype design, new products and processes, promoting the dispersal of industries to the less developed areas and impart higher levels of training. Simultaneously special emphasis would be laid on human resource development, particularly training programs between the central and state levels. The specialized agencies like small industries service institutes, national institute for entrepreneurship and small business development national institute of small industry extension training etc., would provide increased extension services and establish service outlets in centers of industrial activity. The Development Commissioner of Industries has been engaged in promotion, development and regulatory activities for the small scale sector. This office inter alia takes care of technology, training, common services, tooling facilities, design and development of prototypes, entrepreneurial development, data collection and monitoring of production of items reserved for this sector. A number of regional testing centers were established for providing quality marking
services. A number of consultancy organizations were established with the assistance and participation of Industrial Development Bank of India.

For the entire program an outlay Rs.1120.00 crore was proposed in seventh plan and 0.6 percent of total outlay as shown in table-2.9. In the 7th Five year plan period, the value of production ranges from Rs.1220 crore to Rs.92080 crore, employment from 11900 to 119.60 lakh persons and export from Rs.23500 to Rs.414000 crore and in the annual plan also 1990-91 to 1991-92, the value of production varies from Rs.1,59,062 to Rs.160000 crore, employment from 12550 lakh persons to 12600 and export Rs.710000 crore to Rs.12658.00 crore.

**Eighth Five Year Plan (1992-1997)**

During Eighth Five year plan Rs.2862.1 crore were allocated for the development of villages and small industrial units out of the total plan outlay of Rs.4,34,100 crore. The eighth plan aimed at a growth rate of 5.6 percent. The growth rates for the manufacturing sector and export were kept at 7.3 percent and 13.6 percent respectively. During the Eighth plan, people’s initiative and participation would play key element in the process of development. One of the areas of priority of the eighth plan was generation of adequate employment to achieve full employment. Several activities pertaining to this sector like processing of agricultural produce in rural areas, agriculture and allied activities have been identified as critical goals in priority sectors.

The Reserve Bank of India appointed a committee in December, 1991 to review the arrangements for meeting the working capital requirements of small
industrial units and for the rehabilitation of sick small industrial units and to examine the other issues relating to small industrial units. The growth centre approach was accepted as a suitable measure for industrial dispersal and was under implementation in large and medium industries sector. During the eight plans, establishment of 70 growth centers has been envisaged. It is proposed to earmark area for small scale industries.

**Ninth Five Year Plan (1997-2002)**

During the ninth plan various initiatives were taken to strengthen the small industrial units through technology upgradation, modernization, enabling and encouraging them to enhance quality, introduction of modern management practices, providing marketing and other key inputs, increasing the availability of credit/loans from financial institutions and banks against materials supplied, etc.

Fifty integrated infrastructure development centers were set-up during the eighth plan for infrastructure facilities of small industrial units developed in backward and rural areas, out of which, 22 had been approved. This scheme continued during the ninth plan period to help the small industrial sector. The government has given financial assistance of Rs.75000 per each small scale unit as being provided to acquire ISO9000 or an equivalent quality certification. The credit provided to the small industrial sector by the public sector banks stood at Rs.31542 crore by March 1997. The cumulative disbursement by the state financial corporation has amounted to Rs.12,704 crore up to March 1996.
Tenth Five Year Plan (2002-2007)

A study group under the chairmanship of S.P. Gupta submitted a report on the problems of small industrial sector in July 2000. After inter-ministerial consultations the prime minister announced a number of new policy initiatives on 30th 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 projects cost limit under the national equity fund scheme to Rs.50 lakh
- Credit linked capital subsidy at 12 percent of the cost of technological up-gradation 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 limits to Rs.500 lakh for hi-tech and export oriented sectors.
- Technology bank would be setup for small industrial sector by strengthening the existing technology bureau for small enterprises of SIDBI.
- One time capital grant of 50 percent 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 meets, vendor development programs and exhibitions.
- Conduct of third census on small industries.
- Integrated infrastructure development centers scheme extended to all areas.

During the 10th Plan, 58 IIDCs had been approved and central grant of Rs.38.83 crore had been released up to February 2001; an additional 50 centers were proposed to be taken up during the tenth plan period. The 10th Plan period was expected to increase the production of these small industrial units to Rs.14,01,939 crore, the employment to 23.7 million persons and the export to Rs.126000 crore by 2006-07. Out of the total plan outlay of Rs.18,65,700 crore as on 2002-07, the proposal outlay for the development of village and small industrial units was Rs.5,534 crore. The target of the sector is to reach 12 percent per annum during the 10th Plan.

Eleventh Five Year Plan (2007-2012)

The Eleventh plan would aim at raising the rate of growth of the Industrial sector to 10 percent per annum. Continuing commitment to priority lending for micro small medium enterprises remains an essential feature of development banking. The eleventh plan must ensure that the policies are sufficiently flexible to support the development of Micro finance. In the
Eleventh plan, the strategy of manufacturing proposed by the National Manufacturing Competitive Council (NMCC) includes the following initiatives.

(i) Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote the small scale sector and be consistent with the unified national market, so that the Indian industry can reap the benefit of economies of scale and scope.

(ii) While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.

(iii) Modern technology paves the way for high industrial growth.

(iv) State governments should take steps to create an investor friendly climate providing a single window clearance of applications for establishment of industrial units.

(v) Labour-intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector.

(vi) The policy of progressive de-reservation of industries for small scale production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the 11th plan at an accelerated pace.

(vii) Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.
(viii) The existing incentive programs such as those available for the north-east, J&K, Himachal Pradesh and Uttaranchal need to be reviewed with a view to assess their impart on industrialization in these areas.

(ix) The Industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises.

The 11th Plan will place special emphasis on infrastructure and skill formation. Competition is the best guarantee of consumer protection and should be strongly encouraged. It needs to be ensured that the un-registered small enterprises and units outside the co-operative fold are also able to benefit from government schemes. A cluster approach can help increase viability by providing these units with infrastructure and support services of better quality at lower costs. All entry barriers should be removed and business risks for start-ups mitigated, the later inter-alia, through a large number of well-managed business incubators in the identified thrust areas of manufacturing. There should be special focus on the services sector, so that it’s potential to create employment and growth is fully realized. Under the eleventh plan, there should be two kinds of schemes, one focusing on the lives of small firm workers, artisans and craft people and the other on their livelihood. One of the important tasks of the eleventh plan would be to review the position of small scale sector.

**PROGRESS OF SMALL SCALE INDUSTRIES IN INDIA**

Small scale industries have continued to play a key role in the process of industrialization as part of the planned economic development of the country.
These industries have grown simultaneously with the medium and large industries. On one side village/traditional/rural industries, on the other harmonious and coordinated growth of these segments has been facilitated by pursuing a suitable package of policies and programs in the successive Five year plans. Advantages of small scale industries as experienced in different parts of the country are low investments per worker, high potential for employment generation, diversification of the industrial base and dispersal of industries into rural and semi-urban areas. Other attributes of the sector are low gestation period, reduction of regional disparities of industries and scope to exploit local raw materials and dormant entrepreneurship which would have otherwise remained unutilized.

Soon after independence the national government convened an Industrial conference in December 1947. The conference divided small and cottage industries, broadly classified, into three categories.

(i) Those which are auxiliary to large scale industries, for example manufacture of heralds, 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 goods such as brass, cooper and aluminum wire, furniture, cutlery, iron foundries hosiery, soap making, paper baskets, coir rope, pickles, paper, etc.
On the recommendation of the industries conference a Cottage Industrial 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 industrial sector, which cover a wide variety of industries varying in the nature of products provided by them. Therefore, in order to carry out planning and development effectively, the village and small industries sector was divided into six broad groups of industries though the line of demarcation between any two groups is not always very clear cut. These six groups are: Handlooms, Khadi and Village Industries, Handicraft, Sericulture, Coir and Small Scale Industries.

Separate board was set-up for each group of industries during 1952-53. Further, in the year 1953-54, the government set-up the Central Small Industries Organization and the Small Scale Industries Board as per the recommendations of the Ford Foundation team. It was realized that small industries due to their small sizes need some protection assistance against large scale industries, from the government to develop 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 needing such patronage and a restrictive definition would not include many genuine small industries.

The small industries board was initially beset with the evolution of a suitable working definition of small industry for administrating various assistance programs. At its first meeting held on 5\textsuperscript{th} and 6\textsuperscript{th} 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 government of India opened the new policy initiatives announced for the small scale sector in 1991. It has decided to lower the ceiling from Rs.3 crore to Rs.1 crore. At present the ceiling limit is enhanced to Rs.10 crore.

**INDUSTRIAL POLICY RESOLUTIONS**

India has a long history of conceiving policies for the protection of the small industrial units, and their origin can be traced back to the days of national movement and to Mahatma Gandhi’s emphasis on village industries. Gandhi stressed the need to promote village and small industrial units because of their desirable social and employment consequences. The swadeshi movement and the decision to boycott British goods before II World War led to the growth of large cotton mill industry in India but not the small scale cottage industry. In fact the handloom industry declined due to the stiff competition faced from the large mill industry.

Since Independence several industrial policy resolutions have been formulated to promote industrial growth in the country. These resolutions have helped the small industrial units through various incentives in order to fulfill the social economic objectives. These incentives were related to the fiscal and infrastructural measures and were targeted at achieving the growth of the sector during the plan periods. The main objectives of industrial policy resolutions were to promote industrial growth and also to determine the pattern of state assistance to small industrial units for fulfilling socio-economic objectives.
**Industrial Policy Resolution -1948:**

The industrial policy resolution of 1948 spelled out the details of some basic and strategic industries to be established by the state in addition to those in which the private sector could be permitted to play a role. The policy aimed at a balanced growth of different manufacturing sectors and focused on the co-existence of large, small and cottage industries. An emphasis was laid on the promotion of cottage and small industrial sector as these could play a crucial role in the rehabilitation of displaced persons through establishment in individual and corporate units. In 1948 an all India cottage industries board was set-up at the end of 1st Plan and a series of boards was established to deal with the traditional industries. There were the: All India Handloom Board, All India Handicrafts Board, Central Silk Board, Coir Board, All India Khadi and Village Industries Board, and Small Scale Industries Board.

The first five industries came under the category of traditional industry, while the Small Scale Industries Board was concerned with the modern small scale industry. The Industrial Regulations and Development Act (IRDA), which was passed in 1951, served as the main objective of government policy for regulating industrial growth. The IRDA exempted these industries from registration when the units were using power and were employing less than 50 workers or employing less than 100 workers without using the power. For certain specified industries like cotton, weaving and matches, no new units were allowed to be set-up without prior approval even when the units propose to employ less than 50 workers. In 1955 the Village and Small Sale Industries
Board was set-up to encourage and protect the village and small scale industries. The main objectives of the committee were:

(i) To avoid technical un-employment

(ii) To increase the employment through village and small industries.

(iii) To provide the basis for a structure of an essential decentralized society.

**Industrial Policy Resolution -1956:**

The industrial policy resolution of 1956 supported the industrial measures to improve the competitive strength of enterprises while recognizing the role of small industrial sector in providing employment opportunities and in mobilizing local skills and capital resources. Industries have been classified into three categories, viz., those exclusively reserved for public sector, those in which the public sector would take initiative with the private sector and the third category representing the remaining industries that would be left to the private sector. The starting of industrial estates to set up and expand the small industrial units was a very important measure for the growth of different types of small industrial units all over the country during second five year plan period. The industrial estates provide the necessary infrastructure such as power, water, transport etc in the second plan. Thus, the Second Five Year plan gave a boost to the small scale industrial sector to develop extensively. The Third and Fourth Five year plans concentrated more on providing financial facilities, marketing facilities, etc., to the small industrial sector. The financial assistance to these units is provided by the State Financial Corporation, the
Small Scale Industrial Development Corporations and Commercial Banks. The timing also coincided with the nationalization of banks in 1969 in order to provide more financial aid to the priority sectors of which small industrial sector is an important one. Later, a number of steps were taken both at central and state levels to develop small industrial units.

**Industrial Policy Resolution -1977:**

The industrial policy statement of December 1977 stressed the need for a wider dispersal of cottage and small industries into rural areas and small towns. It emphasized the importance of effective promotion of cottage and small industries. The government committed itself to the concept that any product which could be produced by cottage and small industry be exclusively within the small enterprises sector. This led to the expansion of the list of reserved items for exclusive production of small industrial units. The number of items reserved expanded from 180 in 1976 to 500 in 1978 and more than 800 in 1979. It provided for an annual review of their list in view of new products and new processes of manufacturer that emerge.

**Industrial Policy Resolution -1980:**

The industrial policy statement of 1980 focused on integrated industrial development and suggested the setting up of nuclear plants in those districts which were identified as industrially backward with the expectation that these would help the spatial dispersal of small, ancillary units and that the existing network of small industrial units would grow faster. This industrial policy statement spells out the following socio-economic objectives.
(i) Optimum utilization of capacity.

(ii) Maximum production and achievement of higher productivity

(iii) Higher employment generation

(iv) To avoid the regional imbalances

(v) Strengthening of the agro based industries

(vi) Promotion of export-oriented industries

Small industrial units were redefined by raising the ceiling limit of investment in plant and machinery. The investment limit in the case of tiny units was enhanced to Rs.2 lakh, the small industrial units to Rs.20 lakh and ancillaries to Rs.25 lakh. A scheme for building buffer stocks of essential raw material for the small industrial units was introduced through the small industries development corporations in the states and the national small entrepreneurs and the managerial assistants to improve the supply of managerial cadre to this sector. The small industries development fund was set-up in 1986 for providing refinance facilities for development and also for rehabilitation of small, cottage and village industries in rural areas. Later, the national equity fund was set-up in 1987 to provide equity type support to small entrepreneurs for the setting up of new projects in the small industrial sector. The small industrial development bank of India as a subsidiary of Industrial Development Bank of India was to provide credit to small industrial units and also refinance facilities to commercial banks.
**Industrial Policy Resolution -1990:**

The policy resolution is related to mainly three important issues.

(i) Industrial licensing

(ii) Foreign investment and foreign collaboration

(iii) Agreement and investment ceilings for small industrial units

Investment limit for small industrial units was revised from Rs.6 million to Rs.7.5 million for ancillary units and to Rs.0.50 million for tiny sector respectively. During this period central investment subsidy scheme was introduced for small industrial units. A special cell was established in small industrial development organization and state directorates of industries to impart training and conduct entrepreneurial development.

This industrial policy was announced separately for the small industrial sector with the basic objective to make this sector more competitive. The important measures indicated are:

(i) To shift emphasis from cheap credit to adequate flow of credit on normative basis.

(ii) To provide access to the capital market by allowing 24 per cent equity participation by other industrial undertakings.

(iii) To establish technology development cell to improve the productivity and competitiveness of small industrial units.

(iv) To promote marketing of small industrial units products through institutions.

(v) To create export development center in SIDO.
**Industrial Policy Resolution -1991:**

In 1991 the Indian government announced a separate policy for the small and tiny sectors. This policy statement widened the investment limit for the tiny sector and removed the vocational reservations and recognized business and industry related services as small industrial units on par with the tiny units. The manufacture of items, banned in the small industrial units, was stopped. The small industrial units which employ less than 50 workers with power and 100 workers without power were exempted from licensing. The small and ancillary industries were exempted from licensing for all articles of manufacturer which were not covered by the public sector. The investment to 0.5 million and location conditions were withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location were recognized as small industrial units. A new scheme of integrated infrastructural development for small industrial units was provided with the participations of state government and financial institutions.

**Industrial Policy Resolution -1999:**

The main objective of the industrial policy 1999 was to create a congenial environment for the small industrial units to cope up with the emerging challenges of globalization. To focus fully on the promotion and development of small industry units a separate ministry of small industrial units and agro and rural industries was created. The policy initiatives were:
(i) The annual turnover limit for calculation of working capital limit for small industrial units was raised to Rs.5 crore from Rs.4 crore.

(ii) The maximum ceiling limit for composite loan schemes was increased to Rs. 5 lakh.

(iii) To increase flow of credit to small industrial units a new credit insurance scheme was launched.

(iv) Small industrial units producing goods in rural areas were allowed excise exemption on third party branded goods.

(v) The definition of small and ancillary industry was revised by reducing investment limit in plant and machinery to Rs.1 crore from 3 crore.

(vi) Special package for the development of small and village industries in north-eastern regions was announced. The industrial units in the north eastern region were given exemption from excise duty for 10 years from the date of commencement of production and special emphasis was given on the units which have high export potential.

PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

The micro, small and medium enterprises sector plays a significant role in improving production, employment and exports of the country. This sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. This sector employs about 42 million persons in over 13 million units through the country. Further, this sector has
consistently registered a higher growth rate than the rest of the industrial sectors.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME’s in India. It is a well known fact that the MSMEs provide the maximum opportunities for both self employment and jobs next to agriculture. The data on various economic parameters to evaluate the performance of this sector is presented in table-1.2.

It can be observed from the data that the number of MSMEs has increased from 4.2 lakh units in 1973-74 to 8.7 lakh units by 1980-81. The increase in units however has been predominant between 1980-81 and 1990-91 from 8.7 lakh to 67.87 lakh units. During the post reform period, the growth of MSME units has been gradual and steady which is evident from the increase from 97.15 lakh units in 1999-2000 to 285.16 lakh units in 2008-09. There has been a steady growth in investment, production, employment and exports during 2008-09 over 1973-74, the investment and production increase being from Rs.93,555 crore and Rs.78,802 crore in 1990-91 to Rs.6,21,753 crore and Rs.8,80,805 crore in 2008-09 respectively at current prices. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 39.7 lakh in 1973-74 to 158.34 during 1990-91 and to 659.35 lakh during 2008-09.
### Table - 1.2.
Performance of micro, small and medium enterprises sector in India during 1973-74 to 2008-09

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of MSMEs (in Lakh)</th>
<th>Fixed Investment (Rs. Crore)</th>
<th>Production (Rs. Crore)</th>
<th>Employment (Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>4.2</td>
<td>NA</td>
<td>7200</td>
<td>34200</td>
</tr>
<tr>
<td>1975-76</td>
<td>5.5</td>
<td>NA</td>
<td>11000</td>
<td>42500</td>
</tr>
<tr>
<td>1980-81</td>
<td>8.7</td>
<td>NA</td>
<td>28100</td>
<td>72200</td>
</tr>
<tr>
<td>1985-86</td>
<td>13.5</td>
<td>NA</td>
<td>61200</td>
<td>118100</td>
</tr>
<tr>
<td>1990-91</td>
<td>67.87</td>
<td>93555</td>
<td>78802</td>
<td>84728</td>
</tr>
<tr>
<td>1991-92</td>
<td>70.63</td>
<td>100351</td>
<td>50615</td>
<td>87355</td>
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<tr>
<td>1992-93</td>
<td>73.51</td>
<td>109623</td>
<td>84413</td>
<td>92246</td>
</tr>
<tr>
<td>1993-94</td>
<td>76.49</td>
<td>115797</td>
<td>98796</td>
<td>98796</td>
</tr>
<tr>
<td>1994-95</td>
<td>79.60</td>
<td>123790</td>
<td>122154</td>
<td>108774</td>
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<tr>
<td>1995-96</td>
<td>82.84</td>
<td>125750</td>
<td>147712</td>
<td>121175</td>
</tr>
<tr>
<td>1996-97</td>
<td>86.21</td>
<td>130560</td>
<td>167805</td>
<td>134892</td>
</tr>
<tr>
<td>1997-98</td>
<td>89.71</td>
<td>133242</td>
<td>187217</td>
<td>146263</td>
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<td>1998-99</td>
<td>93.36</td>
<td>135482</td>
<td>210454</td>
<td>157525</td>
</tr>
<tr>
<td>1999-00</td>
<td>97.15</td>
<td>139982</td>
<td>233766</td>
<td>170379</td>
</tr>
<tr>
<td>2000-01</td>
<td>101.1</td>
<td>146845</td>
<td>261297</td>
<td>184401</td>
</tr>
<tr>
<td>2001-02</td>
<td>105.21</td>
<td>154389</td>
<td>282270</td>
<td>195613</td>
</tr>
<tr>
<td>2002-03</td>
<td>109.49</td>
<td>162317</td>
<td>314850</td>
<td>306771</td>
</tr>
<tr>
<td>2003-04</td>
<td>113.95</td>
<td>170219</td>
<td>364547</td>
<td>336344</td>
</tr>
<tr>
<td>2004-05</td>
<td>118.59</td>
<td>178699</td>
<td>429796</td>
<td>372938</td>
</tr>
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<td>2005-06</td>
<td>123.42</td>
<td>188113</td>
<td>497842</td>
<td>418884</td>
</tr>
<tr>
<td>2006-07</td>
<td>261.01</td>
<td>500758</td>
<td>709398</td>
<td>NA</td>
</tr>
<tr>
<td>2007-08</td>
<td>272.79</td>
<td>558190</td>
<td>790759</td>
<td>NA</td>
</tr>
<tr>
<td>2008-09</td>
<td>285.16</td>
<td>621753</td>
<td>880805</td>
<td>NA</td>
</tr>
</tbody>
</table>

**Note:** The data for the period up to 2005-06 is only for small scale industries (MSMEs) subsequent to 2005-06, data with reference to micro, small and medium enterprises are being compiled.

**Source:** (i) Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, 2009-10.
The compound growth rate of MSMEs investment, production, employment and export from 1990-91 to 2008-09 are worked out and presented in table-1.3. This period is again bifurcated into two sub-periods from 1990-91 to 2001-02 and from 2002-03 to 2008-09.

Table - 1.3.
Compound annual growth rates of MSMEs in India during 1990-91 to 2008-09

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of MSMEs</th>
<th>Fixed investment</th>
<th>Production</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>4.07</td>
<td>29.03</td>
<td>12.30</td>
<td>4.21</td>
</tr>
<tr>
<td>2001-02</td>
<td>17.30</td>
<td>25.09</td>
<td>18.70</td>
<td>16.76</td>
</tr>
<tr>
<td>2008-09</td>
<td>8.30</td>
<td>26.26</td>
<td>14.35</td>
<td>5.25</td>
</tr>
</tbody>
</table>

Source: Computed from the collected data.

Table-1.3 shows that the compound growth rate of number of MSMEs for the whole period (1990-2009) is 8.30 percent, while it is 17.30 percent in recent past against the 4.07 percent during the period 1990-91 to 2001-02. In the production front the compound growth rate for the whole period is 14.35 percent. It was 12.30 percent during 1990-91 to 2001-02 period and 18.70 percent in the recent past period. The compound growth rate of fixed investment is more than other components. It is 26.26 percent for whole period, the compound growth rates of employment have been worked to 8.25 percent, 4.21 percent and 16.76 percent for the corresponding periods respectively. The details of exports are presented in table-1.4.
### Table -1. 4.
India’s exports and share of MSMEs during 1980-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Export of MSMEs</th>
<th>Share of MSMEs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>6711</td>
<td>1600</td>
<td>23.8</td>
</tr>
<tr>
<td>1981-82</td>
<td>7803</td>
<td>2070</td>
<td>26.5</td>
</tr>
<tr>
<td>1982-93</td>
<td>8908</td>
<td>2045</td>
<td>22.9</td>
</tr>
<tr>
<td>1983-84</td>
<td>9872</td>
<td>2164</td>
<td>21.9</td>
</tr>
<tr>
<td>1984-85</td>
<td>11744</td>
<td>2553</td>
<td>21.7</td>
</tr>
<tr>
<td>1985-86</td>
<td>10895</td>
<td>2800</td>
<td>25.7</td>
</tr>
<tr>
<td>1986-87</td>
<td>12567</td>
<td>3648</td>
<td>29.0</td>
</tr>
<tr>
<td>1987-88</td>
<td>15741</td>
<td>4525</td>
<td>29.0</td>
</tr>
<tr>
<td>1988-89</td>
<td>20232</td>
<td>5490</td>
<td>27.1</td>
</tr>
<tr>
<td>1989-90</td>
<td>27681</td>
<td>7626</td>
<td>27.6</td>
</tr>
<tr>
<td>1990-91</td>
<td>32553</td>
<td>9664</td>
<td>29.7</td>
</tr>
<tr>
<td>1991-92</td>
<td>44042</td>
<td>13883</td>
<td>31.5</td>
</tr>
<tr>
<td>1992-93</td>
<td>53688</td>
<td>17784</td>
<td>33.1</td>
</tr>
<tr>
<td>1993-94</td>
<td>69751</td>
<td>25307</td>
<td>36.4</td>
</tr>
<tr>
<td>1994-95</td>
<td>82674</td>
<td>29068</td>
<td>35.2</td>
</tr>
<tr>
<td>1995-96</td>
<td>106353</td>
<td>36470</td>
<td>34.3</td>
</tr>
<tr>
<td>1996-97</td>
<td>118817</td>
<td>39248</td>
<td>33.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>130101</td>
<td>44442</td>
<td>34.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>141604</td>
<td>48979</td>
<td>34.2</td>
</tr>
<tr>
<td>1999-00</td>
<td>158184</td>
<td>54200</td>
<td>34.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>203571</td>
<td>69797</td>
<td>34.3</td>
</tr>
<tr>
<td>2001-02</td>
<td>209018</td>
<td>71244</td>
<td>34.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>255137</td>
<td>86013</td>
<td>37.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>293367</td>
<td>97644</td>
<td>33.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>375340</td>
<td>124417</td>
<td>31.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>425650</td>
<td>150242</td>
<td>38.56</td>
</tr>
<tr>
<td>2006-07</td>
<td>465698</td>
<td>182538</td>
<td>44.12</td>
</tr>
<tr>
<td>2007-08</td>
<td>495845</td>
<td>202017</td>
<td>46.58</td>
</tr>
<tr>
<td>2008-09</td>
<td>524678</td>
<td>204817</td>
<td>47.00</td>
</tr>
</tbody>
</table>

**Source:** Centre for Industrial and Economic Research.

The share of exports of MSMEs sector to total exports ranges from 21.7 percent in 1984-85 (the lowest) to 46.58 percent in 2008-09 (the highest). The share of MSME’s sector to total exports increased constantly from 23.8 percent during 1980-81 to 27.6 percent during 1989-90 and to 46.58 percent during 2008-09.
It is striking to observe that the share of MSME sector has oscillated between a minimum of 21.7 percent and a maximum of 29.0 percent during period.

In absolute terms, the exports of MSMEs sector have increased from Rs.1600 crore in 1980-81 to Rs.7626 crore in 1989-90, registering an increase of 27.6 percent. During the post-liberalization period the share of small scale sector in the total exports has ranged between a minimum of 29.7 percent and maximum of 47.00 percent. In absolute terms, the value of exports of MSMEs sector has increased from Rs.9664 crore in 1990-91 to Rs.204817 crore in 2008-09. This provides an evidence of the fact that there has been a marked increase in the exports of MSMEs sector during the period 1980-81 to 2008-09.

PROSPECTS AND OPPORTUNITIES IN SMALL – SCALE INDUSTRIES

Learning outcome:

- Examines the setting-up and problems related to small business management

Prospects in Small –Scale Industries:

- Contributes almost 40 per cent of the gross industrial value added in the Indian economy.

- Creates largest employment opportunities for the Indian population, next only to agriculture.

- 45-50 per cent of the Indian exports are contributed by Small Scale Industries (SSI) sector.
Product groups where the small scale sector dominates in exports are sports goods, ready-made garments, woolen garments and knit-wear, plastic products, processed food and leather products.

**OPPORTUNITIES**

The opportunities in the small-scale sector are enormous due to the following factors:

- Less capital intensive
- Extensive promotion and support by government.
- Reservation for exclusive purchase by government
- Export promotion
- Growth in demand in the domestic market due to overall economic growth.

The small scale industries occupy a very important position in any economy. Traditionally, they produce certain specialized items for which they enjoy virtual monopoly because of skill and expertise developed over the years. Many items produced in the small-scale industries contributed to large-scale production in no small measure.

However, in a free economy, the small-scale industries will have to face tough and challenging competition from the large-scale industrial sector. In a controlled economy, the small-scale industries are protected from competition from the large-scale sector for their survival and growth; however, they will have to face competition from the large-scale sector in the field of own
investment and resources. For this purpose, they will have to take effective measures in the following areas:

**Quality of goods/services:**

The products of large-scale industries are of high quality and precision. In a free economy, the products of the small-scale industry compete with those of the large-scale only if high quality is maintained. To meet the competition from the large-scale sector, the small-scale industries should get a good share of the export market for which also high quality products are essential. It would thus be necessary for the small-scale industrial units to introduce quality control measures. If necessary, they can enlist the assistance of reputed outside agencies in this regard. In a competitive environment where low cost quality output is necessary, choice of technology assumes great importance. In a free economy, the small-scale entrepreneurs should preferably have a technical background or, at least, an understanding of the technical processes involved in production.

**Marketing Arrangements:**

Many small-scale units have perished for their inability to sell what they have produced. This happened because of lack of proper marketing arrangements. In a free economy, inadequate marketing arrangements would only accelerate the downfall of small-scale units, as they would have to counter competition from the large-scale sector, which enjoys ready market for its products. The small-scale units would be required to conduct systematic and continuous market research and make endeavors for making tie-up
arrangements with the prospective buyers in order that the products of the small-scale sector may be readily sold.

**Advertisement:**

The products of the large-scale sector are widely advertised in TV, Radio and Newspapers. The small-scale industrial units suffer resource inadequacy and consequently most of them cannot advertise their products in mass media. As a result, the products of the small-scale units are largely unfamiliar and they find it very difficult to attain their sales goals. But in a free economy, where the small –scale units will have to thrive by competing with the large-scale sector, the small-scale industries must make adequate publicity of their products. For publicity, some funds are to be set aside and although initially the profits may be low, such publicity expenditure will serve the cause of future profitability.

**Recovery of Receivables:**

The funds of many small-scale industrial units are blocked in receivables. As a result, recycling of funds is affected and production suffers. In a competitive environment, it must be ensured that receivable dues are realized with utmost expedition. The small-scale units will have to make special efforts for collection of their dues for their growth. They may have to utilize the services of factoring companies for the purpose.

**Professionalism in Management:**

Many small scale industrial units have suffered lack of proprietary management. Barring very tiny and small units, management of small-scale
industries has become complex. Hence, for managerial efficiency, which is a sine qua non for success of small-scale enterprises, the small-scale industrial units are to be managed by the professional managers in order to compete with the large scale sector which is professionally managed.

**Inventory Control:**

Proper Inventory control is an essential pre-requisite for optimum production of an industrial unit. Yet, a large number of small-scale units are not aware of this requirement and as a result, they remain content with a sub-optimal level of production affecting their profitability adversely. It is, therefore, imperative that the small-scale units familiarize themselves with inventory control techniques and introduce them particularly in the context of competition in a free economy from the large-scale sector where modern inventory control techniques are widely adopted. Many small-scale units have become sick for neglecting the above-mentioned areas. The other causes of sickness of small-scale industries are mainly as under:

- Diversion of funds
- Dissension among partners
- Shortage of power
- Technological obsolescence
- Over-dependence on purchases by Government

The small-scale units must properly look after these areas to guard against sickness. India is now largely a free-enterprise economy. In India, despite liberalized economy, the small-scale sector is performing well. The policies of
the government are also directed towards the growth of small-scale industries. The government has since enhanced the investment limit in plant and machinery from Rs.60 lakh (Rs.75 lakh for ancillaries and exporting small scale units) to a common limit of Rs.3 crore. This would encourage modernization of existing small-scale industries with adoption of appropriate new technologies in the sector and stimulate the growth of new small-scale units.

The government is also keen to provide adequate institutional credit to the small scale sector by ensuring that working capital limits of small scale units are fixed by the financial institutions at a minimum of 20 per cent of their projected turnover, as prescribed by Nayak Committee. The government has plans to educate the small-scale entrepreneurs about economics of sale, arrange for up-gradation of skills and technologies and strengthen the export capabilities for promotion of small scale industries.

In India, the small-scale industries are, therefore, poised for growth and development provided they adopt strategies as mentioned above to overcome competition from the large-scale sector. Thus, the prospects of small scale industries in a free economy are quite encouraging provided the Government plays a supportive role and adequate measures are taken to meet the challenges thrown up by the large scale sector.

PROMOTIONAL SCHEMES

The Small Scale Industries (SSI) constitutes an important segment of the Indian economy in terms of their contribution to the country’s industrial production exports employment and creation of an entrepreneurial base. The
Government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policies and central sector programs/schemes, their implementation and related co-ordination to supplement the efforts of the states for promotion and development of these industries in India. The Ministry of small scale industries and ARI were bifurcated into two separate ministries, viz., Ministry of Small-scale Industries and Ministry of Agro and Rural Industries in September, 2001.

The role of the Ministry of Small Scale Industries is to mainly assist the States in their efforts to promote growth and development of the small scale sector, to enhance their competitiveness in an increasingly marketed economy and generating additional employment opportunities. The specific schemes/programs undertaken by the organizations of the Ministry seek to facilitate/provide one or more of the following:

- Adequate credit from financial institutions/banks.
- Funds for technology up-gradation and modernization.
- Integrated Infrastructural facilities.
- Modern testing facilities and quality certification laboratories.
- Access to modern management practices, entrepreneurship development and skill up-gradation through appropriate training facilities.
- Assistance for better access to domestic and export markets,
• Cluster-wise measures to promote capacity-building and empowerment of the units and their collectives, in addition to all or some of the above mentioned supports.

PROMOTIONAL AGENCIES

Small Industries Development Organization (SIDO):

The Small Industry Development Organization (SIDO) was established in 1954, which is the apex body for assisting the government in formulating and overseeing the implementation of its policies and programs. The SIDO is headed by the Additional Secretary and Development Commissioner.

National Small Industries Corporation Ltd (NSIC):

The National Small Industries Corporation Ltd (NSIC) was established by the Government in 1955 as a public sector company with a view to promoting aiding and fostering the growth of micro small and medium enterprises (MSMEs) in the country, with focus on commercial aspects of their operations. NSIC implements several schemes to help the MSMEs in the areas of raw material procurement, product marketing, credit rating acquisition of technologies, adoption of improved management practices, etc., through its 7 Zonal Offices, 26 Branch Offices, 15 Sub Offices, 5 National Technical Services, 2 Software Technology Parks and 3 Technical Services Extension Centers, spread practically all over the country. The Corporation, an ISO: 9001-2000 Company has also set-up a number of turnkey projects in many developing countries.
National Entrepreneurship Development Institutes (NEDIS):

Entrepreneurship development and training is one of the key elements for the promotion of Micro, Small and Medium Enterprises (MSMEs), particularly the first generation entrepreneurs. To undertake this task on regular basis, the Ministry has set up 3 national-level Entrepreneurship Development Institutes, viz. National Institute of Small Industry Extension Training (NISIET) at Hyderabad, National Institute of Entrepreneurship and Small Business Development (NIESBUD) at Noida and Indian Institute of Entrepreneurship (IIE) at Guwahati, as autonomous societies. These institutes are engaged in the development of training modules, undertaking research and training and providing consultancy services for entrepreneurship development and promotion of MSMEs.

National Commission for Enterprises in the Un-organized Sector (NCEUS):

The National Commission for Enterprises in the Unorganized Sector (NCEUS) was constituted on 20th September 2004 and consists of a chairman, two full-time members, one member secretary and two part-time members. An advisory board consisting of 10 eminent experts and activists concerned with the unorganized sector was also constituted to advise the commission. The commission has been given the mandate to examine the problems of the unorganized sector (also referred to as informal sector) and suggest measures to overcome them. The term of the commission, which was initially fixed as one year, has been extended to three years.
International Co-operation Scheme:

International co-operation scheme for modernization and technology up-gradation and competitiveness enhancement of small enterprises has been under implementation since 1996. Under this scheme small entrepreneurs are taken to potential foreign markets for firm/association level interactions on inter alia sourcing technology exploring export markets of their products and learning best practices.

The scheme now encompasses the following activities:-

- Participation in exhibition-fairs and buyer-seller meets (with an international component).
- Exchange of business delegations to explore new areas of technology up-gradation facilitating joint ventures, improving marketability of small scale sector products, foreign collaborations, etc.
- Holding of seminars/buyer-seller meets, to promote enterprise-to-enterprise interactions through selected agencies, both in India & abroad.
- During 2006-07 participation of small scale sector in international exhibitions and deputation of business delegations has been sponsored under the scheme.

Role of Women in Small Scale Sector:

In the third All India census of small scale sector, the participation of women in the small scale sector has been categorized in three roles; some
women are owners of enterprises, some managers of enterprises and some employees. The total number of women enterprises in the small scale sector was estimated at 10,63,721 (10.11 per cent). The estimated number of enterprises actually managed by women was 9,95,141 (9.46 per cent).

About 13 per cent of the women enterprises were in the registered small scale sector category, the rest being unregistered. Of the enterprises managed by women, 11.5 per cent were in the registered small scale industry category. The share of the units managed by women in terms of employment was 7.14 per cent. The employment generated per Rs.1 lakh investment in the units managed by women was 2.49. The total number of female employees in the small scale sector is estimated at 33,17,496. About 57.62 per cent of the women were employed in small scale units located in the States of Tamil Nadu, Kerala, Karnataka, West Bengal and Andhra Pradesh.

The proportion of female employees in the total employment in the small scale sector was 13.315 per cent. In the states/union territories of Mizoram, Orissa, Karnataka, Goa, Lakshadweep, Kerala, Tamil Nadu and Pondicherry, the share of women employment was significantly higher (more than 20 per cent), compared with the total employment in the respective states.

In India, women entrepreneurs have been in business for quite some time and achieved remarkable success; however, their number is still small. One of the reasons for this is the initial hesitation and inhibition, which emanates from the traditional and societal perception of the role of women. Like any other entrepreneurs, a new women entrepreneur has to compete with
those who are already well established. Therefore, women entrepreneurs have to not only face the gender insensitivity and bias prevalent in the society but also compete against established competition. In its industrial policy the Government of India has laid considerable emphasis on the promotion of women entrepreneurship, particularly first generation women entrepreneurs, through various training and support services. Special attention is given by organizing exclusive entrepreneurship development programs for women. In these programs, the trainees/entrepreneurs are exposed, through demonstration and training, to the manufacture of a variety of products. Thus, many women are trained every year by the Institutes of the Ministry. The available feedback shows that these women have not limited themselves to the conventional ventures but also set up hi-tech industries in the fields of information technology, engineering, graded grey iron, non-ferrous casting and sophisticated electronic equipment, etc. Tool rooms have started designing special courses for women in the field of tool engineering. Voluntary organizations in the country are also doing commendable work in the field of women entrepreneurship development. Associations of women entrepreneurs have also come up and are doing remarkably well in some states.

The Plan Schemes of Ministry of small scale industries are for the development of small scale sector in the country and the main focus is to provide a wide range of services and facilities required for accelerating the growth of small scale sector. In case of programs like entrepreneurial development program, Management Development Program, National award for
entrepreneurial Development (Quality Products) and Trade Related Entrepreneurship Assistance and Development (TREAD) Program for Women, etc., the necessary guidelines have been issued and specific reservations provided for women.

**Prime Minister Rozgar Yojana (PMRY):**

The PMRY aimed to provide employment to more than a million persons by setting up of 7 lakh micro enterprises by the educated unemployed youth during the last four years of 8\textsuperscript{th} Plan, i.e., 1993-94 to 1996-97. The scheme continued in the 9\textsuperscript{th} Plan. The scheme has been continuing in the 10\textsuperscript{th} Plan. It relates to the setting-up of the self employment ventures in all economically viable projects (except direct agricultural operations like rising of crops and purchase of manure, etc.). The scheme also seeks to associate reputed non-governmental organization\textsuperscript{3} in implementation of PMRY scheme especially in the selection, training of entrepreneurs and preparation of project profiles.

**PROBLEMS OF SMALL SCALE INDUSTRIES**

As already pointed out, the major problems of the small scale units are built into their small size and resource constraints which limit their competitiveness and growth capabilities. The leading problems of the sector are both internal relating to the planning operation and management of the enterprises, and external, relating to the business environment the units’ face\textsuperscript{5}. There is a broad set of problems which almost all the small enterprises face in different degrees. Then there are product specific, location-specific or
ownership-specific factors which affect different enterprises differently. Further, different sub-segments within the small scale sector have their own specific problems and issues.

The following problems are general and common to all the small scale units and the individual management of the units plays a major role in reducing the problems and constraints. The major problems of the small sector may be grouped under the following heads:

(i) Execution Problems:

(a) Planning stage:

Like any industrial unit a small scale unit requires careful project planning. It requires both economic and technical feasibility studies and market potential survey. Most of the individual small scale sector promoters have inadequate technical expertise and know-how, and are not financially sound enough to engage specialized technical consulting firms which are often expensive by small scale standards. Further, the small scale units have local orientation and the geographical location may not necessarily be favorable. Cottage and tiny units are least mobile.

At the initial planning stage self assessment of the financial requirements may be widely off the mark. In the middle of the project implementation stage discovery of inadequacy of project outlay or cost overruns may force the promoters to compromise on other items of expenditure which may sow the seeds of sickness right in the embryonic stage. The shortage of resources may also compel the promoters to settle for low
technology capital equipment which may confine the competitiveness of the enterprise in the operational stage. In the same fashion inability to conduct scientific or reliable market potential survey may cause unrealistically high level of demand estimation. Such limitations are most common in individual proprietorships or partnerships where one or few people take decisions on the basis of their own limited expertise. Mistakes made at the project planning stage often prove very costly later at the implementation or operational stage.

(b) **Implementation stage:**

The efficiency and effectiveness with which a small scale project is implemented determine the sunk costs and the gestation period of the project. Faulty implementation often leads to cost and time over-runs which increase the project cost and the gestation period. In most small scale units, project implementation is in the hands of the owner-promoters who sometimes, due to lack of professional expertise, may not be able to complete the project in time. Further, project planning mistakes made at the implementation stage adversely affect the effectiveness and competitiveness of the enterprise in the operational stage. This is the stage where funds are mobilized and plant and equipment installed. Shortfalls in fund mobilization may make the unit uneconomic and raise its expenditure. Similarly, delay in the availability of technical man-power may prolong the implementation stage. Time- overruns also involve financial burden as the overheads, right from the time of establishment, start imposing fixed costs which may strain the financial position of the enterprise in the later stages.
(c) **Operational stage:**

During the operational stage small scale units face a large variety of problems. These problems relate to the diverse aspects of the functioning of the enterprise including management, finance, marketing, man-power technology and other related areas. Quality and effectiveness of management generally play a great role in preventing or reducing a number of problems. These problems cause sickness in the small scale units which may eventually lead to their closure. A large number of small scale units are known to have closed down within a few years of their establishment. Operational units, as already discussed in the preceding sections, suffer from widespread sickness in different measures or degrees. Major problems of the small sector may be grouped under the following heads.

(ii) **Financial Problems:**

Small units have a weak capital base which obstructs their efforts to upgrade technology, introduce innovative products or even expand existing production. An equally serious problem is that of working capital which gets diminished as the working capital cycle lengthens. Small firms generally have weak bargaining power via-a-vis distributors or bulk buyers (like industrial firms) who are not only able to dictate supplier credit terms in their favour but also often default on timely payment. This raises costs, reduces competitiveness and squeezes profits.

A number of financial institutions like state financial corporations, state industrial development banks, small industries development bank of India and
scheduled commercial banks are there to cater to the financial requirements of
the small industries on a priority basis. However, procedures are bureaucratic,
sanction time is long, amount dispersed is often less than the requirement and
above all the effective rate of interest is high. Moreover the repayment
conditions are generally rigid.

Financial problems of the small sector are not merely confined to credit
availability. Even the cost of credit has been quite high. It has been estimated
that the effective rate of interest of small scale sector credit is 16-17 per cent
while larger non- small scale units are able to get credit at Prime Lending Rate
(PLR) of the banks and sometimes even 1-2 per cent below PLR. Often small
scale units have to avail credit from the unorganized financial market at
exorbitant rates when they are unable to satisfy the lending criteria of
institutions in the organized sector.

Internally too most small scale units are unable to have proper financial
planning due to lack of professional expertise. As a result, degree of financial
indiscipline is high. Dishonesty or mistrust between partners hampers new
investment and sometimes leads to fraudulent practices which drain away the
limited financial resources of the enterprise. The intensity of the financial
problems is commonly observed to be inversely proportional to the size of the
small scale unit.

(iii) Marketing Problems:

Another problem emanating from the resource limitation of the small
scale sector is manifested in the marketing constraints and handicaps. Most
small scale units do not have separate marketing divisions as a result of which their marketing effort is weak. These units are generally not in a position to afford modern advertising consumer research, market potential surveys, product adaptations and measures for distribution channels development. The weakness of the marketing function causes the following types of problems.

- Lack of product awareness among the consumers.
- Weak bargaining position of small scale industries producers’ vis-à-vis distributors which are able to dictate terms of sale.
- Offer of products unmatched to consumer needs or requirements.
- Recurrent stock-out position or excess-supply situation.
- High proportion of unbranded products leading to loss of market power.

These problems lead to weak demand and un-remunerative prices to producers. Most of the profit margins are absorbed by the members of distribution channels. The marketing problems are worse for the seasonal products. As most of the small scale units have a local market, heavy selling pressure and local competition keep prices down. Because of the financial limitations, the units are unable to build buffer or inventory stocks. It is for this reason that a number of government institutions provide marketing support to small scale units in various product areas. These institutions and support measures are taken up in the subsequent sections.
(iv) Production Problems:

Small scale units face a number of production problems due to which the supply flow is interrupted⁶. The production set-backs also cause wastage and rise of per unit cost. These problems arise from a variety of sources. Some of the main sources of production problem are the following.

- As these units depend more on local sources for raw material, the availability of materials is inadequate for sometimes. These units, being small buyers are often unable to negotiate prices for supply of raw material. Raw material availability is sparse when the supplies come either from the government or from the imports. Due to financial problems, the units are not in a position to build sufficient inventories.
- Lack of availability of skilled labour, particularly in remote local areas, creates production problems. Quite often workers leave the unit without prior notice leading to disruption in production.
- Small units commonly use traditional or obsolete technology. As a result the repair and maintenance problems are common. Frequent plant breakdowns cause interruption in the flow of production.
- Chronic power shortage in the country affects small scale units in a larger measure. These units are generally not able to afford captive power generation systems. Frequent power cuts lead to production stoppages.

These problems affect market supplies, cause more wastage and increase per unit costs. These also lead to under-utilization of productive
capacity and deprive the units of economies of scale. These factors together make the units still more uncompetitive. According to the Report of the Informal Group of the Planning Commission (1987), capacity utilization in the small scale sectors was an abysmal 30 per cent.

(v) Labour Problems:

The employer-employee relations in a small organization are expected to be close, yet these units are prone to greater labour troubles. Labor problems spoil work environment, reduce productivity and cause disruption in production. These problems also account for fall in quality and increase in production costs. Such problems are mainly caused by:

- Seasonal migration of workers to rural areas.
- Tactless handling of worker problems.
- Lack of worker facilities and safety devices at the workplace.
- Low or delayed payment to workers.
- Interpersonal problems and disputes.
- Low educational status of workers and lack of training.

Static labour skills often deter the units to modernize or upgrade technology. The level of compliance of the small units to various labor laws is quite low and in tiny and cottage units, there are hardly any labor records. Modern small scale units are also afflicted by the problems of trade unionism. Skilled and competent workers in small units are commonly observed to seek work in larger organizations which offer better wages, facilities and career prospects.
(vi) **Managerial Problems:**

A vast majority of small scale units are proprietorship or partnership concerns with little skills in professional management. Relatively few private limited companies with small scale sector tag are also closely-held and family-run enterprises with little better managerial skills. Poor management is in fact responsible for most of the internal problems as discussed above. Organizational mission, vision, planning and strategy are hardly reflected in the operational or functional aspects. Absence or lack of managerial perspective is like sailing without oars and the enterprise is most vulnerable to the vagaries of changing market conditions.

(vii) **Exogenous Factors:**

There exist a large number of external factors which are beyond the control of the small scale sector owners or managers and which create many problems for the enterprises. These factors are related to business environment—both internal and external. Main adverse factors beyond the control of the small units are the following.

- Infrastructural bottlenecks;
- Stringent lending policies of financial institutions;
- Government control on prices and distribution;
- Burdensome taxation;
- Bureaucratic and procedural problems;
- Competition from large enterprises; and
- Liberal imports.
Some of these problems affect non-small scale units, as well as the small scale units because of their resource limitations are more vulnerable to these factors and have limited capacity to withstand such shocks.

(viii) Quality Problems:

The small scale sector faces unprecedented quality challenges at the present time. While there is a quality wave among the large units to gain entry in the foreign markets and to response to the quality expectations of the domestic consumers, technological obsolescence and resource constraints are dogging most of the small scale units, particularly in the tiny sector. At present, the Bureau of Indian Standards (BIS) has about 150 products for which compliance with ISI certification norms is mandatory. Some of the popular product groups are LPG cylinders, food coloring agents, galvanized iron pipes, oil pressure stoves, GLS lamps, electrical accessories, pressure cookers and batteries. Due to non-compliance with quality standards, a large number of small scale units are losing their market to larger units in these areas both at home and abroad. Quality standardization requires quality awareness, professionalism and increased investment in new processes and products. The BIS assists small scale units in pre-certification training and trial assessment but the managements of a large number of units are generally not able to make a proper benefit-cost-analysis of quality certification.

CHALLENGES OF SMALL SCALE INDUSTRIES

In addition to the above general problems small scale units at present face unprecedented challenges. Some of the challenges threaten the very
existence of the small and vulnerable units. The government has been responding though slowly to the emerging challenges before the small scale sector through a series of compensatory measures which are discussed in the next section. Some of the major challenges facing the small scale units are the following.

**Conclusion:**

From the foregoing discussion, it is understood that the small scale units developed in the country with the help of various promotional agencies and schemes. The schemes are provided to small businessmen, women entrepreneurs and other weaker sections of the society to improve their livelihood and to serve the society in the form of providing employment opportunities. Further, it is also observed that there are significant differences in the development of districts which have implemented various schemes of small scale industries. It is in this context the present study is undertaken to know:

(i) Whether there are any significant differences between the regions in the implementation of small scale industrial schemes including PMRY.

(ii) What are the problems faced by entrepreneurs in this regions in running their enterprises with selected schemes?
References:


