CHAPTER II
REVIEW OF LITERATURE AND METHODOLOGY

2.1. Review of Literature

Survey of literature is based on various articles published in the leading journals, unpublished and published dissertations and theses submitted to some of the Indian universities, papers presented at seminars, newspaper reports, and published books. A.W. Shepherd (1979) in an occasional paper of Development Administration Group briefly outlined the objectives of the DIC programme in India. According to him the obvious reasons for setting in motion the DIC programme in late 1970s are as follows:

1. The growing concern in government circles in India with India's rapidly expanding metropolitan cities and with stemming rural-urban migration.

2. The emergence of the rural rich as an increasingly powerful interest group at the centre of Indian politics led by Charan Singh. Farmers and rural traders are, it could be argued, unable to cope with organizational multiplicity and complexity and so need a coordinated and decentralized approach on the part of the Government if their business are to be helped to prosper, which explains the spatial shift in Industrial policy, i.e. concentration of attention on all market towns through DIC programme.

3. It is an attempt on the part of the central government to gain control over the troublesome politics of tribal India and to re establish central government control over the development of SSI.

4. The growth of violent trade unionism and protest in modern small-scale industry in industrialised regions such as Bombay, Bangalore etc. is also responsible for spatial shifts through the establishment of DICs.

Abid Hussain Expert Committee on Small Enterprise had made significant recommendations towards making the sector more viable, but without adequately outlining the administrative and financial support, which would be required to
implement them. There can be no disagreement with the basic thesis of the report that the time has come for the policy of "protection," so far followed in India, towards the small scale sector needs to be replaced by one of "promotion". Any policy followed without change for a number of years begins to acquire many undesirable characteristics. Many young entrepreneurs today, are not specifically interested in the incentives provided by government and wish to have as little interference as possible from government agencies. In any case, to talk of protection at a time when the country is adopting a policy of "open economy" becomes both unrealistic and unwise. As the Chairman in his introductory note has rightly pointed out; "the basic accent of the policy towards the small industry in India has been defensive aiming to insulate it from the dynamics of competitive growth. In the world of today, such insulation is not practical." The new policy to be formulated, should aim to make the sector able to stand on its own legs and compete as equal terms with other industrial sectors and the role of the state is merely to ensure a "level playing field" for this purpose. This change of perspective in the policy frame is essential if the sector is to survive and grow as a dynamic component of the economy. One would have liked the report to consider some special conditions under which some measures of protection may be not only necessary, but equitable. Thus, a small unit operating in one of the metros with developed infrastructure and ready access to market is a completely different proposition from one in the remote country side. Similarly, small units in the developed regions of the Punjab, Haryana, Maharashtra or Tamil Nadu have obvious advantage over those operating in North-East, with geo-graphic isolation and limited market. The country, thus, can reap rich dividends if discriminating support were given to such pockets. The Committee thus recommended, "the cluster concept: it has great deal of merit; it provides an added strength by the close proximity of other units, by large and small, supplemented by the ready availability of ancillary services" (Ram K Vepa, 1997).

Abid Hussain Committee Report (1997) about DICs says that the DICs were set up in 1978 to act as nodal agency for the industrial growth in a district by bringing a number of agencies under a common umbrella with a team of officials. The concept was laudable and much was expected of the new agency to bring a new spirit into the semi-urban and rural areas of the country. Having associated with it as the first national coordinator, it was disappointing to find that the DICs became a refuge for all
the personnel working in the state Industry Departments. Some of them even benefited through quick promotions since open market recruitment of fresh personnel were resented. Thus an experiment, which could have yielded many benefits, became merely a device for helping government personnel: the entrepreneurs saw the same faces and the same attitudes in the new agencies and quickly became disillusioned with them. Slowly, the old regulatory instincts of the DIC personnel took precedence and the early promotional zeal was quickly stifled. Another problem, which the DICs encountered, was the reluctance of the departments to delegate the powers of inspection provided in the various statutes to the General Manager of DIC. In the DIC, even the limited innovation of building a new bridge with the banking system did not work as well his endorsement carried little weight even with erstwhile colleagues, leading to frustration all round. The report merely notes that the DIC had not functioned well without going into the reason for it; instead, it recommends the setting up of a new agency District Enterprise Promotion Agency (DEPA) which included representatives of departments like sales tax, excise, labour and environment in the hope that these departments will look more favourably to the small enterprises: but past experience makes this highly doubtful. A more drastic exercise may be necessary to amend many of the existing enactments, particularly those dealing with labour and environment, as one has remarked “one cannot impose a first class legislation on a third class economy”.

Sathysundaram’s (1987) study on DICs, concentrates on the interface of DIC with other agencies. The DICs have set up to coordinate the industrial expansion and to serve as ‘single window service’ institutions. However, in actual practice, most DICs have failed to discharge this function effectively. The performance of DICs in respect of conducting techno economic surveys identifying market potential for various products, assisting respective entrepreneurs, imparting training to them and initiating quality control measures is not up to the mark. The Lead bank, District Rural Development Agency (DRDA) and the DIC have to function with perfect understanding. However, the linkage among them is very weak.

Ajith Kumar Gaur (1987) studies about the staffing pattern of DICs and explains that the staffing pattern of the DICs remained to be streamlined. The unscheduled transfer of the DIC personnel, including the General Manager, usually
casts an adverse effect on the general functioning of the development programme. Generally, the DIC personnel should be transferred only after completing a five-year term.

Sudakhar Rao (1984) emphasizes on the technical information available from DICs and writes that the technical information available with DICs is almost negligible. It would be desirable if the DICs possess reliable information relating to projects, technology, machinery suppliers etc., in respect of industries relevant to the district concerned. The DICs should have a shelf of projects with all relevant information, which can be implemented without any difficulty. While the DICs were required to make provisions in their action plans for the establishment of rural marketing centres, most DICs do not make any such provision, as pointed out by the Public Accounts Committee in its 219th Report submitted in August 1984.

An intensive review of the DIC programme was done by a high level team. Following this review, the Government decided in August 1981 to restructure the DIC programme with one General Manager, four functional Managers and upto three project Managers in disciplines, considered relevant to the needs of the particular districts. But, this restructuring has been very slow probably because there was a fear that this centrally sponsored programme would be wound up after the 6th plan. Again while many of the DICs did prepare action plans, they were not based on any detailed survey or study (EPW 1986).

Mr. Eshwarlal Jain (1979) while submitting the fourth report of the Estimates Committee of the Maharashtra Legislature welcomed the scheme of setting up DICs for the development of small, tiny, village and cottage industries in rural areas. But the report submitted states that the DICs have proved totally ineffective and inefficient in the matter of establishing the required coordination amongst various organizations of government connected with industrial development.

Ram K.Vepa (1979) expressed the view that the basic approach of DICs is not to disrupt the existing occupational patterns at the rural level, but to help those who are already engaged in traditional occupations, improve upon them to provide a livelihood for themselves and be of greater service to the community. According to him
the ultimate success of the programme depends upon the human factor on two counts, 1) on the personnel will of the man at the corridors of power and 2) entrepreneurs that it will be able to attract and stimulate.

Upadhayay N (1980) 10 reviewed the progress achieved by the DICs in Rajasthan and came to the conclusion that with greater coordination among the various functionaries the DICs shall be able to play a still more effective role towards building a sound industrial net work based on local resources, skill and entrepreneurship. DICs hold a promise for ushering in a new economic order and balancing regional imbalances.

Reddy T.S and Reddy P.N (1980) 11 examined the day-to-day functioning of the DICs and pointed out the constraints that persist. The study is confined to Anantapur district in Andhra Pradesh. After studying the achievements of DIC Anantapur, for the year 1979 they concluded that proper selection of personnel for DIC work and also imparting necessary training to them is essential to improve the DIC functioning. They also laid emphasis on the need for timely financial assistance, uninterrupted supply of raw materials, result-oriented entrepreneurs, meaningful coordination among officials and agencies engaged in promotion of SSI and entrepreneurship.

The overdoing of industrialisation idea by the administrators has also been pointed out by Sandesara (1982) 12. His study on Efficacy of Incentives for Small Industries made an evaluation of the impact of long-term financial assistance to small industrial units. The study revealed that while assisted units showed more efficient use of labour and better rewards to them, the non-assisted unit's showed better use of capital. On the question of better performance, as measured by certain growth indicators, the assisted units did not show any better performance over non-assisted units in a majority of cases.

A more recent study by Sandesara (1988) 13 made a more elaborate study of assistance programmes for small scale industries. The study revealed that the units producing items in the reserved list did not show any superior performance over other
units, mainly because the easy entry for new small-scale units had intensified the competition among the small units.

Shaney M (1980)  while analyzing the implications of the government policy to establish DICs identified two basic shortcomings, viz., that it places the burden of a developmental role on bureaucracy in executing regulatory controls and that it is highly biased in favour of urban areas to serve as an instrument of industrial growth in the rural pocket. However he suggests that the DICs should be autonomous bodies devoid of any bureaucratic controls and they should be manned with people dedicated to the cause of the segment to be served and acceptable to them.

Harinaryana Rao (1986) examined the role of DICs in the promotion of entrepreneurship and rural industrialization in Anantapur district. He came to the conclusion that effective coordination and cooperation was lacking among the developmental agencies and organizations connected with the implementation of the Gramodaya scheme.

Satyanarayana (1989) made an attempt to evaluate the impact of DICs in the industrialization of Anantapur district. The study is based on the census data for large and medium scale industries and sample data for small, cottage and village industries, which were collected from 60 units from three blocks out of 16 blocks in the district. He used simple statistical tools like averages, percentages, compound growth rates, standard deviation and coefficient of variation. In this study it is concluded that the impact of DIC was not significant in respect of promotion and development of SSI units, village and cottage industries in Anantapur district. It also concluded that the role of DIC depends upon the personality of the General Manager and his staff.

When compared to the large-scale sector, the small scale industrial sector of Kerala is acquiring prominence both in number and in employment generation, especially during the eighties. The sector is capable of providing more than fifty per cent of the industrial employment in the state. Based on the capital and technological constraints of the state, the need and scope for the development of the small-scale sector is of much relevance in the context of Kerala’s industrial development (Thampy1990).
The State Planning Board (1989) in its approach to the Eighth-five year plan has rightly emphasized that “private investment, which in the state even now amount to less than forty per cent of the total investment in modern industry in the organized sector, has enormous potential to expand and it must be given all needed assistance to play its due role in invigorating the industrial economy of the state”.

The efforts of the government should primarily be directed towards ensuring inter-industry linkages, agglomeration economies, technological modernization, marketability etc that will raise the regions cost-effectiveness in manufacturing skill intensive and high value added products and those that have linkage with the regional economy (Thampy1990).

On incentives and assistance programmes for the small-scale sector in Kerala, there have not been many studies. Oommen’s study (1972) and also the earlier study by Dhar and Lydall found that the Industrial Estate Programme had not been a success in the state, which Oommen found that the Rural Industries Project in Kerala was a not success, he found that the government as an agency for financial assistance was not successful. The Planning Commission’s (1968) study had also found that the RIP scheme was not a success in Kerala.

According to Oommen (1972) the various development programmes for the promotion of small scale industries have largely failed to meet their avowed objectives. The poor performance, however, seemed not due to any basic weakness in the conception of these programme but due to the defects in their design and implementations.

The Task Force on SSI (1989) found that available subsidies and concessions are not distributed to eligible units at the right time. Such assistances announced by the government are badly delayed for several reasons such as delay in issuing, detailed orders, inadequacy of budget provisions etc.

In a seminar on prevention and cure of sickness among the SSI units, held in 1990 at Hyderabad, it was hinted that experience from Kerala showed that an over dose of incentives was one of the main reasons for turning healthy units into sick units (SPB,1990).
It is thus clear from the review of the existing literatures that a detailed study about the performance of DICs in the development of SSI units in Kerala is the need of the hour.

2.2. Methodology

One of the most important objectives of the present study is to assess whether the DICs have been effective in their functioning to the extent to which they were expected of. The study is conducted in two stages: the first stage is a non-theoretical analysis based on both secondary and primary data. The second stage is a theoretical analysis purely based on the secondary data.

The organizational structure of DICs, strengths and weaknesses are studied based on the staffing pattern of DICs, the duties and responsibilities attached to functional managers, project managers and extension officers. Shortcomings are identified in the light of formal and informal discussions carried out with the officials of DICs and also with the beneficiaries.

The growth of small scale industry before and after the establishment of DICs is studied by classifying the data into two periods, i.e. before 1979 (Pre-DIC Period) and after 1979 (DIC Period). The growth of SSIs during the period 1979-2001 is considered as an indicator of DIC performance. For this purpose compound growth rates were calculated for three indicators, i.e., units, employment and investment. Structural changes in the composition of SSI after the establishment of DICs were also analysed. Comparative performance of DICs at all India level vis-à-vis Kerala is studied based on the following nine selected indicators:

1. Entrepreneurs identified
2. Registrations given
3. SSI units established
4. Additional employment generated
5. Technical Assistance provided
6. Project profiles prepared
7. Credit assistance
8. Cash subsidy disbursed and
9. Artisan units established.

Standard deviation and coefficient of variation were calculated to know the relative performance. To assess the performance of DICs in the districts of Kerala state and to identify the DICs that fared better a Performance Index has been prepared based on the nine indicators mentioned above. These are the key indicators wherein the DICs were assigned a special role and responsibility. Time series data from 1980-81 to 2000-2001 have been collected from 14 districts. As the achievements in terms of different indicators differ among DICs, in order to measure the overall performance scores were allotted ranging from 1 to 14. The DIC with the highest average in a particular indicator was given the maximum score of 14 and then in descending order for each indicator. The total scores obtained by each DIC for all the nine indicators were aggregated to find out the overall performance of the DICs. This method helps in identifying the DICs, which performed well. For the purpose of an in depth study of the working of DICs three districts were selected. The districts are drawn from the three broad geographical regions of the state i.e. Travancore, Cochin and Malabar region. The sample districts include Thiruvananthapuram from Travancore region, Ernakulam from Cochin region and Malappuram from Malabar region. Out of the total 250 sample units, of which 92 are from Thiruvananthapuram, 115 from Ernakulam and 43 from Malappuram.

Linkage effects generated by industrial units were estimated on the basis of the methodology adopted by the IDBI Report on “IDBI assisted Industrial Estates in Karnataka and Andhra Pradesh”(1980) 25, i.e. when inputs are purchased within the districts, income and employment are generated indirectly to the local people. Hence it is deemed to have a strong backward linkage effect. When output is sold in the local area, it is expected to have a strong forward linkage effect as some units which otherwise would have purchased those products outside the local area have access to them within the local area itself. Purchase of inputs and sale of output outside the district are considered as leakages. Factors influencing the location of the unit, selection of line of activity and satisfaction about the DIC assistance are analysed by giving weightages to the beneficiary responses. The weightages given to the responses are shown in Table 2.1.
Table 2.1

Motivational factors influencing selection of location of the unit

<table>
<thead>
<tr>
<th>Degree of influence</th>
<th>Weightages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>6</td>
</tr>
<tr>
<td>High</td>
<td>5</td>
</tr>
<tr>
<td>Fair</td>
<td>4</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
</tr>
<tr>
<td>Low</td>
<td>2</td>
</tr>
<tr>
<td>Very Low</td>
<td>1</td>
</tr>
<tr>
<td>No influence</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Computed

Degree of satisfaction in relation to DIC assistance is measured by assigning weightages which is presented in Table 2.2.

Table 2.2

Weightages assigned

<table>
<thead>
<tr>
<th>Degree of satisfaction</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>3</td>
</tr>
<tr>
<td>Moderate</td>
<td>2</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
<tr>
<td>No influence</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Computed

Based on the responses for each category, collective scores under each subhead is worked out and total collective scores for the respondents in each district are arrived at. These are used for calculating the average scores for each district. The collective scores and number of respondents for all the three districts are tabulated separately feature-wise and the combined scores for respondents of all the three districts put together feature-wise have also been worked out. This is used for arriving at the average of combined scores, which measures the degree of influence/satisfaction in respect of each feature.
The average score for each district and for all the districts put together facilitated the ranking of the degree of influence/satisfaction as high, moderate and low as per the gradation shown below in tables. The degree of influence is ranked in Table 2.3 and in Table 2.4.

### Table 2.3

<table>
<thead>
<tr>
<th>Rank</th>
<th>Range of average score</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>4 to 6</td>
</tr>
<tr>
<td>Moderate</td>
<td>2 to 3.99</td>
</tr>
<tr>
<td>Low</td>
<td>Below 2</td>
</tr>
</tbody>
</table>

Source: Computed

### Table 2.4

<table>
<thead>
<tr>
<th>Rank</th>
<th>Range of Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>2 to 3</td>
</tr>
<tr>
<td>Moderate</td>
<td>1 to 1.99</td>
</tr>
<tr>
<td>Low</td>
<td>Below 1</td>
</tr>
</tbody>
</table>

Source: Calculated, (The results are presented in Chapter IV).

The second and the most important method used in the present study, which in fact distinguishes it from earlier studies, is the construction of a purely theoretical model. This model is expected to represent the macroeconomic behaviour of a representative district economy. This model is in fact an augmentation of R.M. Solow's (1956) model of economic growth. The augmentation is based on the incorporation of an additional independent variable to the original production function used by Solow. This additional independent variable is DIC's expenditure. Therefore, in addition to capital and labour we will have the expenditures by DICs as well in the production function. However, the dependent variable will be District Gross Domestic Industrial Product (DGDIP). The formulation, analyses and derivations of final results will completely be discussed in Chapter V. It should be noted that the theoretical model uses the variable DGDIP while the non-theoretical analyses centre around all the
remaining variables discussed above. The reason for this is that it is extremely difficult to construct theoretical models for all variables mentioned above, in the non-theoretical analyses, become dependent variables. At the same time, there exist readily available models in standard macroeconomic theory, which can be reformulated to include DGDIP as the dependent variable (e.g. as GDP in Solow’s production function).

Once the theoretical model is formulated and final results are derived in Chapter V, we propose to derive its econometric form for the purpose of testing its predictions empirically. This is carried out in Chapter VI. Data for these tests are collected from secondary sources. Complete details about the nature of data and their sources are provided in Chapter VI.
2.3. References and Notes:-


“Small Industry Development Programme in India - Efficacy, Explanation and Lessons –Some field Studies”


19. Thampy, M.M., (1990): op cit,


24. The Economic Times (1990): “Sickness among Small-scale Industries”, Bombay,