CHAPTER - VIII

ROLE OF THE GOVERNMENT IN THE DEVELOPMENT OF INDUSTRIAL

POTENTIALITY

During the British rule in India, policy of the rulers was that of 'laissez faire' in all industrial matters. This was in the interests of British Industries which had already developed to a satisfactory level and were in a position to compete with any industry of foreign country.¹ The declared policy of the then Government was to continue the industries as infants at the mercy of the circumstances without nursing them. Industries therefore were suffering for want of State encouragement and help.² The cultivators and miners were supplying sufficient quantity of raw materials which used to be exported at cheap rates to Great Britain to cater to the needs of their own industries and the finished goods used to be imported from that country for all our requirements. The British industries thus were enjoying a number of privileges and were getting encouragement from their own Government. Their cost of production, consequently was lower than that was prevailing in India. As a result the consumers preferred to buy foreign goods which were cheaper in price and better in

² Ibid.
quality. Thus, whatever the type of industries set up in India were neglected and were not in a position to grow and develop. Many were suffering from heavy losses, being unable to sell their products in competition with British goods.

In course of time, majority of Indian owned industrial units became bankrupt and suffered heavy losses, while the British owned units were getting more and more prosperous. This state of affairs continued till the Provincial Autonomy was granted to some provinces, under the Government of India Act of 1935, which was enforced in April 1937. Popular Governments were formed in most of the provinces.¹

The provincial ministries were not competent to deal with large scale industries, as it was a central subject but they tried their best to provide protection and encouragement for the development of small, village and cottage industries. Thus, 1937 could be said as the beginning of State help to industries in India particularly of small scale.²

²Ibid. op. cited. p. 61.
Position after Independence:

With the advent of freedom the Government of India, under the inspiration of the father of the nation has dedicated itself to the promotion and encouragement of village and small industries, though later on the accent was shifted to large scale industries, specially the key and core sector units. Since then many efforts were made to give state help to all industries and particularly to the Small Scale Sector.¹

Although the plan allocations for small scale industries have increased substantially through consecutive plan periods, the small industry is not yet on its legs. It is now recognised by one and all that the small scale and village industries need every support and encouragement. A keen interest is being displayed by all developing countries of the world in the programme of Small Industries Development, including India. In view of the particular need, in developing countries, to provide employment opportunities on a substantial scale and to ensure that the economic benefit ensuring from the process of development is widely shared by all sections of the people, development of small scale units has become a very important plank in the programme of development of all these countries.

¹Ibid.
The process of transformation of small enterprises from the traditional to a modern sector of industrial economy of the country has been possible by adaptations consistent with modern techniques of production and management. It is necessary to emphasise therefore that a large number of small scale units have taken to sophisticated lines of production including durable consumer and producer goods and many types of spares, parts and components, which required a high degree of professional precision and skill. Under the inspiration of the Government both central and state, such small scale units have established a reputation for quality while using indigenous inputs and appropriate technology. Besides, the other significant economic gains are the contribution of the sector in bringing about a degree of decentralisation in creating focal points of industrial development in different parts of the country, achieving more equitable distribution of income and wealth and reducing regional disparities of development.

Needs of the Welfare State:

The Government wanted to exploit manpower and natural resources as a step towards the industrial development. This is possible only by establishing units which are labour orientated particularly in rural and semi-urban areas. The primary objective of developing small
scale units in rural areas is to extend work opportunities, raise incomes and standard of living and to bring about a more balanced and integrated rural economic development. These objectives mainly follow the principles of a welfare state and aim at developing the country keeping the principles of social justice and social welfare as the main base.

Objectives of a Welfare State:

During the past four decades the country has been successful in implementing its plans keeping in view the needs of industrial development. This has resulted in increasing the volume of production of a wide variety of new products creating more employment opportunities and mobilising the huge volume of capital.

Referring to the role of small scale, cottage and village industries the Industrial Policy Resolution of 1956 says: 'They provide immediate large scale employment. They offer a method of ensuring more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain un-utilised. Some of the problems that unplanned urbanisation tends to create will be avoided by

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the establishment of Industrial production all over the country'.

**Small Scale Units Provide Large Scale Employment:**

The Small Scale Industry which is labour intensive, plays a vital role in the overall economic development of a country like India where, millions of people are unemployed or under employed, where most of the entrepreneurs are capable of only small investment and where there is dearth of sophisticated machines and modern technology. It is obvious that the capital investment is low in small scale sector compared to large scale sector. It is agreed that the amount of capital invested in small scale units will provide more employment opportunities when compared with the employment opportunities available in large scale industry.

**Development of Backward Areas:**

In 1956 the Government felt that the growth of small scale sector will lead to a balanced regional development. Development of small units in rural areas will help to strike a healthy balance between the rates of economic growth in rural and urban areas. This results in reduced social costs such as provision of living

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accommodation in urban areas, hospitals, recreation facilities, etc. Besides, small units can easily be decentralised compared to large units and thus problems of atmospheric and noise pollution could also be minimised.

It is also observed that small units when started in rural areas will also eradicate the recurring problems of seasonal unemployment in agriculture.

The Government's Policy:

It is observed that since independence the policy of the government is to develop the small scale sector and thus try to achieve some of the objectives of the establishment of a welfare state. The Industrial Policy of 1948, stated that the cottage and small industries are best suited for the better utilisation of local resources and for the achievement of self-sufficiency. The Industrial Policy Resolution of 1956 laid a greater stress on the role of village and small industries. It stated that 'the aim of the state policy would be to ensure that the decentralised sector secures sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The state will therefore concentrate on measures defined to improve the competitive strength of the small scale producer. Reiterating the role of small industries, the policy emphasised that this sector could be developed by organising industrial co-operatives. The policy also
earmarked a list of items for exclusive production in the small sector.

The 1977 Industrial Policy brought about certain far-reaching changes in the entire spectrum of small scale sector. The main trust of this policy was an effective promotion of cottage and small industries to be widely dispersed in rural areas. It had been laid down that 'whatever can be produced by small and cottage industries be will produced by them only'. This policy gave special attention to tiny sector.

The 1980 Industrial Policy Resolution also stressed the need for the development of tiny and small scale sectors. The list of items which would exclusively be reserved for small scale sector has significantly been expanded. It includes 872 items (as on December 1985) as compared to about 180 items earlier (December 1976).

The Government also extended certain other schemes to help small scale sectors; viz.,

i. Improve their production techniques.

1=Guidelines for Setting up Small Scale Industries in Andhra Pradesh" - Govt. of A.P., Hyderabad, p. 55.
ii. Ensure prompt supply of scarce raw materials.

iii. Provide credit facilities for meeting financial requirements (fixed and working capital), and

iv. Provide common service facilities.

A number of institutions\(^1\) were also established to strengthen the development of small scale units. The Government thus has taken a number of steps to foster the growth of small scale sector. But an important question is how far all these measures have succeeded in achieving the objectives set and transform the situation? The experience of the small scale sector which represents the industrial potentiality of a desired level has been that these steps have not succeeded in achieving the set objectives. Perhaps this is partly due to the interference of the Government at all levels and due to certain lapses on the part of the Government in providing proper atmosphere for the development of the small sector. As a result the government has failed even to measure the industrial potentialities of many regions in the country the question of development coming at a later stage. Rayalaseema is one such example. Let us analyse the situation little elaborately.

\(^1\)A detailed study is made in this connection (Chapter VI, 'Role of Promotional Institutions).
Government and Entrepreneur:

Every entrepreneur has to begin his contact with the Government (Central and/or State) almost from the moment he conceives the idea to start his unit.

Entrepreneurs wanting to set up industrial units confront some problems like -

1. Selection of the product line.
2. Registration of the Unit.
3. Getting clearance from various Government departments vis., health, town planning, sales tax, etc.
4. Registration for allotment of materials through Government/its agencies, grant of subsidy and marketing assistance, etc.

All these and many more requirements are linked directly with the working of Central and State Governments. It will be appropriate therefore to discuss the role of the Government in the day to day working of a unit which also tells something about its interest in assessing the industrial potentiality of a region and its development.

Project Profiles:

The very common question many prospective entrepreneurs often ask is 'could you suggest some industry in which I could invest? This task is mostly faced by the officers of the Industries Department, Small Industries
Service Institutes and D.I.Cs. To help these agencies in answering such questions the Central and State Governments have prepared certain project profiles to suit the needs of various states.

While preparing these reports, the following factors are being considered viz.,

i. availability of resources in the State/region;

ii. the general level of development of the region;

iii. infrastructure available;

iv. investment capacities of the entrepreneurs, etc.

Unfortunately, these profiles are antiquated and not properly revised at frequent intervals. In certain cases they are misleading as the persons in charge of preparing them lack practical experience and proper perspective. Hence, many of them are not realistic and cannot be implemented.

Therefore, it is desirable to strengthen the organisations i.e., institutions of the Central/State Governments dealing with industrial development with really qualified and experienced consultants, 'who will prepare correct and up-to-date reports by investigating, identifying and selecting proper products which will have the good markets for at least 10 years to come'.

1 The Hindu, Vol. 105 (131), 1-6-1978.
Licences/Permissions:

To fulfill the statutory obligation, the entrepreneur has to obtain the licences after having selected the project, from various Government authorities. In this respect the Government appears to be following an inconsistent and ambiguous policy. For instance, it is said that the registration of a small unit is not compulsory. But, to provide incentives, facilities or concessions, the institutional agencies insist on registration. Really, such state of affair drives the industrialist to a state of mental dis-equilibrium as he/she would not be sure as what to do in such a situation. This situation must change for the better.

The registration of units is done at two stages, viz.,

i. Provisional registration: This enables an entrepreneur to take necessary steps to bring the unit into existence.

ii. Permanent registration: When the entrepreneur has taken steps to establish the unit and starts working, he may apply for permanent registration.

Registration:

The registration with the Department of Industries for Small Scale units is optional. However, it is advisable
to get the unit registered as a small scale unit with the DIC concerned, irrespective of whether one needs assistance or not. Normally provisional registration will be granted on mere application. This will be converted into permanent registration if the unit is ready to go into production within six months from the date of issue of provisional registration certificate. This period can be extended for a further period of six months at the request of the entrepreneur.

In addition the entrepreneur has to obtain permission from

a) commissioner of Civil Supplies, and

b) Director of Town Planning for buildings and plans.

**Assistance**

With the establishment of DICs, all assistance to the tiny/small units has been made available under one roof, covering various aspects from registration to project formulation, appraisals, post sanction formalities, administration of incentive schemes, arranging specific trade, training programmes, seminars etc. Infact DIC acts as a focal point for promoting the industrial growth and development in the concerned district. The DIC does this by identifying suitable investment opportunities,
creating awareness of potential areas for investments, providing information on various types of assistance etc., so as to help the prospective investors in the districts in taking prompt investment decisions.

**Documents to be filed by an Entrepreneur:**

A prospective entrepreneur will have to submit a big list of documents before his unit is registered and he is allowed to commence production or during the working of the unit. The list is quite exhaustive which comes out from the chart given in the next page.

The chart gives a list of Acts under which a small industrialist has to file a number of returns at different intervals. In addition the entrepreneur should also file annual returns with the officers of the Commercial Tax department for assessment and wherever applicable he should also file Income Tax returns.

It can be understood that the industrialist therefore is at the mercy of many Government agencies for something or the other from the beginning. All this involves a lot of clerical work which takes away much of his precious time and thus deprives him from bestowing full attention to the problems of his unit.
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III. PERIODICITY AND DETAILS OF THE DOCUMENT (Under the Act)

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<th>Periodicity</th>
<th>Details of the Document (Under the Act)</th>
<th>To whom to be Submitted</th>
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<td>Annual Return (Farmers Act, 1934)</td>
<td>Commissioner of Industries</td>
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<td>3.</td>
<td>Annual Return (Minimum wages Act, 1965)</td>
<td>Commissioner of Industries</td>
</tr>
<tr>
<td>10.</td>
<td>Annual Return (Shops &amp; Establishments Act 1960)</td>
<td>Labour Inspector</td>
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Source: Based on field survey
These procedures which are not in the interests of an entrepreneur are being continued for long and no serious attempt appears to have been made by the Government to simplify them. Keeping in view the need for reducing the burden of the entrepreneur the Government may insist on filing only a few important returns and do away with the rest.

**Forms of Government Assistance:**

Government helps the industrialisation in more than one way. Such help unearths industrial potentiality and accelerates industrial growth in a region. Though the forms of Government assistance are many and quite varied a few forms of assistance relevant to industrial development are discussed in the following pages.

**Raw Materials**

Raw materials are available to industries through four sources:

1. Open market for which no permits or quotas are required.
2. Scarce items for which allotment letters from the Department of Industries are required.
3. Raw materials that require special permits for purchase and storage, eg., Alcohol, Molasses etc.
4. Imported materials.
Scarce items:

Certain raw materials which are scarce in the market are allotted by the Department of Industries in specified quantities to industries based on their requirements and availability. The General Manager, DIC of the concerned district recommends the allotments and the Commissioner of Industries issues the allotment letters. In most of the cases the General Manager, DIC himself is empowered to issue the allotment letters, hence all applications for allotment of raw materials are to be filed with the General Manager, DIC of the district concerned.

Raw materials requiring special permits:

Industries requiring alcohol (Denatured and Rectified Spirit) and methanol as raw materials have to approach the Department of Industries and the Department in turn recommends the cases to the Commissioner of Excise for allotment. Dangerous chemicals like potassium cyanide and sodium cyanide require a detailed accounting under the Poisons Act.

Import of Raw materials:

The requirement of actual users of imported raw materials, components, consumable and spares is met through the system of:

1. Open General Licence
2. Automatic and supplementary licencing

3. Allotment by Canalising agencies.

**Concessions:**

In case the unit is set up in a backward area or by graduates/diploma holders in Professional courses or ex-serviceman/persons belonging to scheduled castes/tribes, the maximum value of the licence shall be Rs. 7.5 lakhs in respect of new or proposed small scale units instead of the normal Rs. 5.00 lakhs (other considerations remain the same). They are also eligible for preferential treatment from the canalising agencies for allotment of essential raw materials.

**Marketing Assistance:**

A ready and steady market outlet for 93I products ensures rapidity in rotating financial resources by the entrepreneur. It is therefore absolutely necessary for a small scale entrepreneur to know the agencies which extend marketing assistance and obtain such an assistance from them.

Government has provided several incentives and concessions for promoting marketing of small scale products. As per the G.O. Ms. No. 1020 dated 30-11-1976, Industries and Commerce (93I) Department, Andhra Pradesh, Small Scale units are exempt from payment of security deposit for supply of their products, and all Government Departments, Public Sector undertakings, State Corporations and quasi
Government Bodies like Zilla Parishads, Panchayat Samithis, Municipalities have to purchase their stationary and stores requirement only from local Small Scale Industrial units.

In order to encourage Small units, the Government has reserved 410 items to be purchased by all the department of the Government exclusively from such units. In case any particular product is not available from the local Small Scale Sector, the buying organisation/department has to obtain a 'non-availability certificate' from the Commissioner of Industries to purchase the same from outside the State/area.

Government has constituted a high power Committee called 'Purchase Review Committee' under the Chairmanship of Chief Secretary to Government to review the performance in the implementation of Government orders stipulating purchases from local industrial units and the various price preferences accorded, to safeguard the interest of small scale industries.

In order to provide marketing assistance to products manufactured by village artisans, handicrafts and Khadi and Village Industries, the Government of India has promoted the programme of setting up "Rural Marketing Service Centres" (RMSC) at various growth points in the country. The units covered under this programme are extended assistance in marketing their products. The RMSC
has been set up at Jangon, Warangal district and is administered by the Andhra Pradesh Productivity Council. Andhra Pradesh Government proposes to set up 10 to 12 more such centres at various growth points in the State.

**Marketing facilities offered to 351 Units for promotion of exports:**

Several steps have been taken by the Government for promotion of exports from Small Scale Sector. The Export and Import Policy for 1985-88 incorporates a number of new provisions to assist this important sector of the economy.

**100% Export facilities to Industrial Units:**

Under the scheme of 100% Export, the Government of India extends several concessions and relaxations to industrial units. All such units, intending to undertake 100% export should make their applications to the Secretariat for industrial approvals, Department of Industrial Development, Ministry of Industry, Udyog Bhawan, New Delhi. These applications will be considered by a Board headed by the Commerce Secretary, Government of India.

The finished products of the 100 percent export units are also exempt from excise duty and other central levies.
Rural Industries

Since seventy percent of the country's population live in rural areas, the Central and State Governments have launched a range of rural based programmes such as Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Self Employment, Special Employment, Gramodaya, Artisan Development, etc., for industrial development of an area. The DICs with the network of other agencies at the district level, implement these programmes.

Financial Assistance:

The Government has been extending its helping hand to SSI/Tiny units in this area also in two ways viz., (1) Direct Finance, and (2) Indirect Finance.

Assistance and concessions provided through various Government Agencies are to be considered as Indirect Finance. Regarding direct finance a few schemes are in operation. A brief discussion on the same is available in the following pages.

Self Employment:

The scheme has been formulated to help the educated unemployed with a minimum qualification of Matriculation. They are assisted in setting up Small Scale or Service units with bulk financial assistance from Government.
The entrepreneur under this scheme gets financial assistance up to 80% of the cost of the Project from financial institutions or banks. 10% of the project is provided as margin money on soft loan basis, by the Department of Industries and the balance 10% is to be contributed by the entrepreneur. All other facilities that are provided to the SSIIs are also provided to the units being set up under this scheme.

For the exclusive benefit of entrepreneurs belonging to SC/ST/BC/EBC categories, 20% of the project cost is sanctioned as margin money loan subject to a maximum of Rs. 20,000/- . The District Collector is empowered to sanction amounts upto Rs. 5,000/-. For amounts over Rs. 5,000/- the approval of District Consultative Committee is required. All margin money loans under this scheme, exceeding Rs. 10,000/- are considered only if the beneficiaries can invest at least 5% of the project cost. The margin money loan carries a rate of interest at 11% per annum.

Gramodaya:

The Government of Andhra Pradesh has launched this centrally sponsored scheme for providing self employment to educated unemployed and thus encourage them in undertaking self employment ventures in industry or service through a package of assistance. This scheme
covers educated unemployed who have passed 10th class (SSLC) and are in the age group of 18 – 35 years. The scheme covers all areas of the state except cities with more than one million population. The district task force consisting of General Manager, DIC as Chairman, Credit Manager DIC, a representative of SISI, District Employment Officer select the candidates. The aptitude of the candidates, availability of raw material and market for the product chosen are the basic criterion for selection.

A composite loan of Rs. 25,000/- to each entrepreneur is sanctioned without insisting upon any collateral security or owner’s contribution as margin. An outright capital subsidy to the extent of 25% of this loan is given which is adjusted by the banks after the entrepreneur repays three quarters of the loan amount. The rate of interest on this composite loan is 10% per annum in backward areas and 12% per annum in other areas.

**Integrated Rural Development Programmes:**

This programme aims at providing full time employment through productivity schemes in selected blocks of the state. Tiny industrial units are provided 33 1/3% subsidy on capital expenditure from Small Farmers Development Agency (SFDA)\(^1\) and 66 2/3% as loan by Schedule banks under this scheme.

\(^1\)Recently named as District Rural Development Society (DRDS).
Rural Artisan Development Programme:

To provide the rural artisan with all the necessary assistance in development of his unit, 50% grant is given for purchase of improved tools by Andhra Pradesh Khadi and Village Industries Board and the remaining 50% as loan from a bank. He is also assisted with working capital loans from the banks.

The Industries Department provides improved tools at 50% subsidy.

Artisan Complex:

The Government has issued guidelines for the establishment of Rural Artisan Complexes in villages with a concentration of 20 and more artisans in allied trades.

Promoting industrial culture, improving skills, upgradation of infrastructure facilities and augmenting the earnings of artisans are the important objectives of the scheme.

Under the scheme, land is provided free of cost by the Panchayat Samithis. A workshed complex is set up and necessary inputs like tools and equipments, working capital is provided by mobilising funds from different agencies like SC/SC corporation, K & V.I Board and Commercial Banks.
Each unit is eligible for assistance to the extent of Rs. 9,000/-, 1/3 of which is a subsidy and Rs. 6,000/- a loan. An amount of Rs. 6,000/- is to be utilised towards workshop-cum-stores, Rs. 1000/- towards tools and equipment and Rs. 2000/- towards working capital.

As per the scheme every mandal is proposed to be covered with one Artisan complex (20 units) in the state.

A brief analysis of the role of the Government:

The Government has got very big role in industrialising the nation so as to convert a traditionally agro-based economy into industrial economy, which is a felt need to compete with the other developing nations. But steps taken to frame the rules and regulations, policies and procedures appear to be so rigid, most of them lack flexibility for application to different sizes of industrial units viz., large, medium, small and tiny.

As the discussion in the Chapter reveals that as many formalities are to be satisfied by an entrepreneur who would like to start a small unit, it is obvious that at times he would be put to lot of inconvenience and may have to face many ugly situations. This environment penalises the small scale sector heavily. Hence, besides its encouraging attitude in the form of direct or indirect help to the entrepreneurs, there is every need for the Government
to think in terms simplifying the procedures in the entire gamut of industrialisation of a region and thus encourage the development of industrial potentiality.

Conclusion:

The Government plays an important role in ascertaining potentialities and developing the industrial units. It is much more so with small scale units. The contact between the Government and the entrepreneur begins from the moment he entertains the idea of starting a small unit, which continues as long as the unit exists. He has to obtain Licences/Permits of different varieties before the unit is established and before the commencement of production. During the working of the unit, he is responsible to file as many as 12 documents/returns at different intervals to the departments/agencies of the Government. This takes lot of time of the entrepreneur. Hence there is an urgent need for the Government to reduce the number of documents to be filed by an entrepreneur to minimal for registration and other purposes.

The Government will have to conduct surveys to ascertain the potentialities of various units to be set up and such reports have to be updated periodically and made available to the prospective entrepreneurs to enable them to take up to their ventures positively and industrialise the region.
SUMMARY

Under the little 'Role of the Government' the discussion has been made relating to the issues like (1) attitude of the Government before Independence towards industrial development, etc. (2) Some of the Acts of Government of India, which have given momentum to a steady growth of Small Scale Industries in the country. (3) Needs and objectives of the welfare state, (4) Some of the important features of SSI units, viz., creation of large scale employment, dispersal of industrial units concentrated in urban to semi-urban and rural areas, (5) Removal of regional imbalances in industrial growth.

Policy of the Government and its role in upgradation of economy, through the development of SSI units, has been enumerated. Discussions on the role of the entrepreneur in setting up a unit, and various facilities, assistance and concessions provided by the Government are also discussed briefly.