Chapter Four

The Evolution and Growth of Small-Scale Industries
The main refrain of this chapter is to provide a comprehensive picture of the evolution and growth of small scale industries at global, national and at state level. There is a worldwide appreciation of the fact that small and medium enterprises play a catalytic role in the development process of most economies. This is reflected in their increasing number and rising proportion in the overall product manufacturing, exports, manpower employment, technical innovations and promotion of entrepreneurial skills.

Small Scale Industries – A Global Scenario

Small enterprises have grown out of the efforts of the merchant class in Japan. The merchant class who have been regarded as subordinate to the warrior class (Samurai) who took to large industry after the Meiji restoration in 1864. The extensive subcontracting programme developed in Japan is an extension of the role the small merchants had always played in that country. This has paid Japan handsome dividends since, it enabled a low-cost, low-wage economy to feed the large industry and the trading houses that have acted as the main spark plug of Japan’s economic growth in the fifties and the sixties. However, a ‘dual structure’ economy has persisted in Japan with large companies acting as the main export outlets but basing themselves
on a large number of small units spread throughout the country. In Japan small business accounts for 37.2 million employees (81.4 percent of the workforce) and 56.1 percent of the total value added in manufacturing, and 79.9 percent of retail sales. Through a complex system of subcontracting, Japan combines the advantages of small production and large volume of marketing.\(^1\)

Small industry in China is largely confined to the 'communes' and 'brigades' set up by Chairman Mao after the withdrawal of Soviet advertisers in 1957. These industries were mainly designed to mobilise local materials, local skills, local finance and local markets. In China small industry has been looked upon primarily as a means of mobilizing local resources in the growth of the country. China has used the small industry so as to gain time till it is able to build up its own technological capabilities in the large industries sector.

China's small industry provided 60 percent of its fertilizer, 57 percent of its cement, 28 percent of its pig iron, 13 percent of its crude steel, 67 percent of its agricultural machinery and 34 percent of its electric power.\(^2\)

Korea has reserved about 110 products for the small and medium industry.

In Italy the health of the economy is maintained by medium-sized privately owned firms and those below, down to cottage industries where individual initiative and motivation have full play.

\(^1\)Ram K. Vepa: Modern Small Industry In India sage publications. New Delhi 1988, p17.
\(^2\)Ram K. Vepa: Ibid. p17
Indonesia has reserved 126 items for exclusive production in the small sector and the implementation of 'Bapak Angkat' (foster father) scheme to link large and small units in productive relationship.

A study by the Small Business research Trust in the UK indicated that small companies had created between 8,00,000 and 1.1 million new jobs during the past six years.

In Canada over 50 percent of the labour force work for small business.

The US Department of Commerce has identified that the bulk of the inventions that have revolutionized human life in the twentieth century have come, not from the large corporations, but from independent small firms. Such inventions\(^3\) include Xerography, DDT, Insulin, Vacuum Tube, Rockets, Penicillin, Titanium, Shell Moulding, Cyclotron, Cotton Picker, Shrink proof knitted wear, Zipper, Automatic Transmission, Dacron Polyster Fiber Terelyne, Gyrocompass, F Mradio, Self-winding wrist watches, Helicopter, Mercury Dry Cell, Power Stetting, Air conditioning, Polaroid Camera. Ball point Pen, Cellophane, Tungsten Carbide, Baskelite, Oxygen Steel making process, etc.

The Indian small scale sector has been able to build upon a local heritage of enterprise, dynamism and renewal. Despite two centuries of colonial rule and total lack of external support the SSI sector has reestablished.

\(^3\)Ram K. Vepa: Ibid p 16
itself and consolidated over the last 50 years. From about 80,000 units today the sector has been proving its mettle time and again. The last decade of the 20th century has seen this sector maintain its steady growth. The performance of the Indian small scale sector in terms of critical economic parameters such as number of units, production, employment and export during the last decade is indicated below.

Table 4.1 Number of SSI Units in India

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Units (million nos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1.94</td>
</tr>
<tr>
<td>1991-92</td>
<td>2.08</td>
</tr>
<tr>
<td>1992-93</td>
<td>2.24</td>
</tr>
<tr>
<td>1993-94</td>
<td>2.38</td>
</tr>
<tr>
<td>1994-95</td>
<td>2.57</td>
</tr>
<tr>
<td>1995-96</td>
<td>2.72</td>
</tr>
<tr>
<td>1996-97</td>
<td>2.85</td>
</tr>
<tr>
<td>1997-98</td>
<td>3.01</td>
</tr>
<tr>
<td>1998-99</td>
<td>3.12</td>
</tr>
<tr>
<td>1999-2000</td>
<td>3.22</td>
</tr>
</tbody>
</table>


The details in the above table indicate a very slow growth of units during the middle 90s. While the growth in the number of SSI units show a good rise in the late 90s. The total number of SSI units went up from 1.94 million in 1990-91 to 3.22 million in 1999-2000.
Production Trends

The value of production from SSI units in India has gone up substantially during the 90s. The following table reveals the growth trends in the production value of the SSI units.

**Table 4.2 Production of SSI Units in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Million Rs. at Current Price)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1553.40</td>
</tr>
<tr>
<td>1991-92</td>
<td>1786.99</td>
</tr>
<tr>
<td>1992-93</td>
<td>2093.00</td>
</tr>
<tr>
<td>1993-94</td>
<td>2416.48</td>
</tr>
<tr>
<td>1994-95</td>
<td>2939.90</td>
</tr>
<tr>
<td>1995-96</td>
<td>3562.13</td>
</tr>
<tr>
<td>1996-97</td>
<td>4126.36</td>
</tr>
<tr>
<td>1997-98</td>
<td>4651.71</td>
</tr>
<tr>
<td>1998-99</td>
<td>5275.15</td>
</tr>
<tr>
<td>1999-2000</td>
<td>5784.70</td>
</tr>
</tbody>
</table>

(Source-Ibid)

The figure in the above table clearly indicate the fast growth of the value of production from the SSI units in India. It is clear that the value of production almost doubled during the first 5 years between 1990-91 and 1995-96. the value of production has increased by more than three times from Rs.1553.40 million in 1991-92 to Rs.5784.70 million in 1999-2000.

Employment

There has been a continuous growth in the employment of manpower in the SSI sector during the decade of 90s. The following table provides the details.
The total employment of man power in the SSI sector has gone up from 12.53 millions in 1990-91 to 17.73 millions in 1999-2000. The growth rate has declined continuously from 1994-95 to 1999-2000 through the growth of employment in absolute terms has gone up during the same period.

**Exports of SSI Units**

The exports of SSI units have gone up by more than four times during the 90s from a mere Rs.96.64 billion in 1990-91 to Rs.489.79 billion in 1999-2000. The annual earnings from exports of SSI products have been detailed in the following table.

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**Table 4.3 Employment In SSI Sector in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (million nos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>12.53</td>
</tr>
<tr>
<td>1991-92</td>
<td>12.98</td>
</tr>
<tr>
<td>1992-93</td>
<td>13.40</td>
</tr>
<tr>
<td>1993-94</td>
<td>13.93</td>
</tr>
<tr>
<td>1994-95</td>
<td>15.65</td>
</tr>
<tr>
<td>1995-96</td>
<td>15.26</td>
</tr>
<tr>
<td>1996-97</td>
<td>16.00</td>
</tr>
<tr>
<td>1997-98</td>
<td>62.72</td>
</tr>
<tr>
<td>1998-99</td>
<td>17.19</td>
</tr>
<tr>
<td>1999-2000</td>
<td>17.73</td>
</tr>
</tbody>
</table>

(Source-Ibid)
Table No. 4.4 Exports of SSI Products in India

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Units (billion Rs. a current prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>96.64</td>
</tr>
<tr>
<td>1991-92</td>
<td>138.83</td>
</tr>
<tr>
<td>1992-93</td>
<td>177.85</td>
</tr>
<tr>
<td>1993-94</td>
<td>253.07</td>
</tr>
<tr>
<td>1994-95</td>
<td>290.68</td>
</tr>
<tr>
<td>1995-96</td>
<td>364.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>392.42</td>
</tr>
<tr>
<td>1997-98</td>
<td>439.46</td>
</tr>
<tr>
<td>1998-99</td>
<td>489.79</td>
</tr>
<tr>
<td>1999-2000</td>
<td>NA</td>
</tr>
</tbody>
</table>

(Source - Ibid)

It is clear from the above table that the increase in exports from the SSI sector has been more than hundred percent during the first five years from 1990-91 to 1994-95. There has been more than four times increase in exports during the ten year period between 1990-91 and 1999-2000. The overall contribution of small scale sector has been more than 35 percent of the total exports from India.

Growth of SSI and Industrial sector

The annual growth rate of SSI sector in India has been much above the industrial sector in general. The following table provides the details.
Table No.4.5 Growth of SSI and Industrial Sector in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI Sector</th>
<th>Industrial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>3.1</td>
<td>0.6</td>
</tr>
<tr>
<td>1992-93</td>
<td>5.6</td>
<td>2.3</td>
</tr>
<tr>
<td>1993-94</td>
<td>7.1</td>
<td>6.0</td>
</tr>
<tr>
<td>1994-95</td>
<td>10.1</td>
<td>9.4</td>
</tr>
<tr>
<td>1995-96</td>
<td>11.4</td>
<td>12.1</td>
</tr>
<tr>
<td>1996-97</td>
<td>11.3</td>
<td>7.1</td>
</tr>
<tr>
<td>1997-98</td>
<td>8.43</td>
<td>5.8</td>
</tr>
<tr>
<td>1998-99</td>
<td>7.7</td>
<td>4.0</td>
</tr>
<tr>
<td>1999-2000</td>
<td>8.16</td>
<td>6.5</td>
</tr>
</tbody>
</table>

It is clear from the above table that the growth rate of the SSI sector has been much higher than the growth rate of industrial sector in general except during 1995-96 when the later had registered a better growth rate than the SSI Sector. The growth rate of SSI sector has been more impressive between 1994-95 and 1996-97 when it showed a double digit growth achievement compared to the earlier period and the period beyond 1997-98 onwards.

**Small Scale Industries-Definitions Approach**

There is no universal definition of small and medium enterprises. In some countries there are certain objective standards which classify the units as micro, small or medium enterprises depending on the number of employees. In some other countries annual turnover of the company determines the size of the enterprise. The concept of size is also a relative phenomena with reference to the local economies since a large company in a small country could possibly be considered as a small company in a larger country.
In India small scale industry is referred to as 'small scale unit'
(including the tiny sector) defined by the criterion of scale of capital investment.
In many other countries like China, Japan, Germany, Indonesia, Iran, Turkey, etc., they go by the number of employees as a criterion for identifying small and medium scale units. In USA and UK small scale unit is defined in terms of the number of employees while in Philippines investment and employment in a unit are the basis to consider it as small scale unit. Investment and turn over are the basis to consider a unit as small scale unit.

**Definition of Small Scale Industry in India**

The definition of small scale industry in India was based both on total investment and labour employed in the early days. But this definition was given up in favour of investment on plant and machinery alone. The question is raised often whether the definition should include specifically an employment criterion as done in some countries. "While there is some merit in the suggestion it needs to be remembered that employment depends critically on the industry and the type of technology employed which in turn is set by the consideration of competitiveness. Greater employment can not be forced and will only result in becoming uncompetitive; in fact employment can only be an incidental fall out, never the primary objective of an industrial operation".

Another aspect of the definition of SSI

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relates to the turnover limit. Should turnover limit be specified as is done for trading operations? In manufacturing 'turn over' can be apparently large in an assembly operation although value added may not be very high. This is so in the production of consumer electronic goods where components are bought out and assembled. Computing the value added in an operation is a tedious affair. It will lead to confusion and consequent delay in determining whether a unit is small scale unit or not. The issue of defining a small scale unit is also considered on the basis of 'ownership' of the unit. In the case of an ancillary unit this consideration may become relevant as 'benami' or 'front' units set up by the parent company are disqualified from being considered ancillary and are regarded as merely extensions of the main plant.

**Changing Pattern of Definitions of SSI Units in India**

The concept of small scale industries has undergone periodic changes. The definition of SSI units has been modified from time to time since 1954 as could be seen from the following details.

**SSI units in 1955**

The Small Scale Industries Board adopted the first working definition of small scale industrial unit as under.

"A unit employing less than 50 persons if using power, and less than 100 persons without the use of power and with capital assets not exceeding Rs. 5 lakhs."
The above definition was not found suitable and would not serve the purpose from the point of view of maximum utilization of equipment and of capital outlay. Hence a new definition of small scale industries was adopted by the Ministry of Commerce and Industries in 1960.

SSI Unit in 1960

"Small scale industries will include all industrial units with a capital investment of not more than Rs.5 lakhs irrespective of persons employed."

This definition of SSI units dispensed with the employment of workers as stipulated in the earlier definition. The Small Scale Industries Board appointed a Sub-Committee (1962) to review the definition of small scale industries and make recommended for necessary changes.

SSI Units in 1962

The Sub-Committee made the enlargement of the assets ranging from Rs.5 lakhs to Rs.10 lakhs. Further modification of the definition of SSI units was made in 1966.

SSI Units in 1966

According to the new definition, "Small Industries will include all industrial units with a capital investment of not more than Rs.7.5 lakhs irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only".
SSI Units in 1974

In view of the steep increase in the prices of capital equipment and of replacement costs of the need for upward revision of the present ceiling on capital investment in the definition of SSI units had become obvious. The Small Scale Industries Board revised the definition in 1974 as under

1. Small Scale Industries:
   "Undertakings having investments in fixed assets in plant and machinery not exceeding Rs.10 lakhs".

2. Ancillary Industries:
   "Undertakings having investments in fixed assets in plant and machinery not exceeding Rs.15 lakhs".

SSI Units in 1980

In view of the plea for raising further the limits of investment by SSI units the Government of India raised the limit of investment in tiny units from Rs.1 lakhs to Rs.2 lakhs and in SSI Units from Rs.10 lakhs to Rs.20 lakhs and for ancillary units from Rs.15 lakhs to Rs.25 lakhs.

SSI Units in 1985

The escalation in the cost of plant and machinery since 1980 had compelled the government to enhance the investment as under;

i. The limit of investment in small scale industrial units was raised to Rs.35 lakhs and

ii. The limit of investment in ancillary units was raised to Rs.45 lakhs.
SSI Units in 1991

The limit of investment in plant and machinery had to be revised in the wake of the policy of liberalization announced by the Government of India and also due to continuing inflation. The new status of investment in SSI units was as under:

i. The limit of investment in plant and machinery was raised to Rs.5 lakhs in case of tiny units.

ii. The limit of investment in plant and machinery in case of SSI units was raised from 35 lakhs to Rs.60 lakhs.

iii. The limit of investment for ancillary units was raised from Rs. 45 lakhs to Rs 75 lakhs.

SSI Units - The New Definition 1997

The investment limit has been further raised by the government of India in case of SSI units

The investment limit for small scale units is set at Rs.30 million in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase.

The tiny industry is one in which the investment in plant and machinery is less than Rs.25 lakhs irrespective of the location of the units.
**SSI Units in 1999 (2002)**

The investment limit for small scale unit is fixed at Rs. 10 million in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase.

**Small Scale (Industry related) Service and Business Enterprises (SSSBEs)**

SSSBE Industry related services/business enterprises with investment up to Rs. 5 lakhs in fixed assets, excluding land and building, are called Small Scale Service/Business Enterprises (SSSBE) viz Advertising Agencies, marketing Consultancy, Industrial Consultancy, Typing Centre, Xeroxing, Industrial Photography, Industrial R and D labs, Industrial Testing labs, Computerised design and drafting, Auto repairs, services and garages, Documentary films, Laboratories engaged in testing of raw materials, finished products, servicing Industry undertakings engaged in maintenance, repairs testing or servicing of all types of vehicles and machinery, etc, Laundry and Dry-cleaning, X Ray Clinics, Tailoring, Weigh Bridge, Photographic lab. All ISD/STD Booths, Teleprinter/Fax Services, Sub contracting Exchanges etc.

**Women Entrepreneurs**

A Small Scale Industrial Unit/Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of
not less than 51 percent as Partners/ shareholders/ Directors of Private Limited Company/ members of Cooperative society.

**Small Scale industries and Industrial Policy in India**

The government has been following a consistent policy of promoting and development of SSI village and cottage industries since the post independence period. It is expedient to recapitulate the important features of the Industrial Policy Resolutions since 1948.

The importance of small scale industries was properly comprehended by the first Industrial Policy Resolution in the post independence period in 1948. It said;

"Cottage and small scale industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprises and means of rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of local self sufficiency in respect of certain types of essential consumer goods."\(^5\)

The Karve Committee appointed by the Planning Commission and the International Perspective Planning Committee jointly sponsored by the Government of India and the Ford Foundation stressed the need for further development of small scale industries in the country. The recommendations of

these two expert bodies led to the declaration of the Industrial Policy Resolution of 1956.

**Industrial Policy of 1956 and the SSI Sector**

This is the basic policy declaration relating to industrial development in the country. This policy has made some observations about SSI sector, which are relevant here;

"The aim of the State policy will be to ensure that decentralized sector requires sufficient vitality to be self-supporting for it is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer."

The Administrative Reform Commission set up by the Government of India recommended in 1969 the appointment of an autonomous commission known as the Small Industries Commission to guide the development of small industries.

**Industrial Policy of 1970 and 1977**

The policy resolution of 1970 reiterated the importance of small scale industries. These industries constituted an essential component for economic self-reliance.

The industrial policy resolution of 1977 announced by the Janata Government laid stress on the effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. This policy led to
the expanding of the list of industries which would be exclusively reserved for the small scale sector covering more than 504 items.

**Industrial Policy 1980 and the SSI Sector**

This policy declaration primarily seeks to harmonise the growth in the small scale sector with that in the large and medium sectors. The emphasis is on fostering complimentarity between the large and small sectors.

**Industrial Policy 1991 and the SSI Sector**

The policy statement states that it is meant to impart more vitality and growth impetus to the SSI sector to enable it to contribute its mite fully to the economy particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed deregulated and debureaucratised with a view to remove all fetters on its growth potential reposing greater faith in small and first generation entrepreneurs.

**Institutional Infrastructure for Small Scale Industries in India**

A super structure of institutions for the promotion and development of small scale industries has emerged in India during the last 50 years after independence. It is expedient to have a brief look at this institutional arrangement for the promotion of SSI sector in India.

i. **The Department of Small Scale Industries Agro and Rural Industries – Government of India.**

This is the highest Central Government department which sets out the policy framework for promotion and development of small scale industries. It
monitors and evaluates the growth and performance of the sectors and implements appropriate policies, programmers and schemes.

ii. Small Industries Development Organisation (SIDO)

The SIDO headed by Development Commissioner Small Scale Industries is an attached office of the Department of SSI ARI. It is an apex body and a nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small scale industries. SIDO also renders comprehensive services including consultancy in techno-economic and managerial aspects; training common facilities services; testing and tool facilities; marketing assistance etc for small scale units. These services are provided through a network of institutions and associated agencies created for specific functions.

Chart I

Functions of Small Industries Development Organisation
iii. Small Industries Service Institutes

There are 28 SISIs and 30 Branch SISIs set up in state capitals and other places all over the country. The functions of the SISIs are mentioned below.

- Interface between central and state government
- Technical support services
- Entrepreneurship Development Programmes
- Development efforts
- Promotional programmes

1. Economic Consultancy / information / EDP consultancy
2. Trade and market information
3. Project profiles
4. State industrial potential survey
5. District industrial potential survey
6. Modernisation and in-plant studies
7. Workshop facilities
8. Training various trades/activities.

IV. Testing Centers

The testing needs of the small scale industries are met by the four Regional testing Centres and 10 Field testing Stations as well as the workshop attached to the SISIs and Branch SISIs
Functions;

1. Providing testing facilities
2. Conducting training programmes and testing
3. Provide consultancy.

V. Tool Rooms / Tool Design Institutes

Functions;

1. Assistance for tool designs
2. Manufacture of tool, jigs, fixtures, moulds, etc
3. Training facilities to tool makers
4. Common service facilities
5. Consultancy

Tool rooms are located at Calcutta, Ludhiana, Jalandhar, Hyderabad, Nagaur, Ahmedabad, Aurangabad, Indore, Bhubaneshwar, Jamshedpur.

VI. Product-cum-Process Development Centre (PPDCs)

These units are located in Agra, Meerut, Bombay and at Ramnagar (UP). The functions of the PPDCs are;

1. To serve as research and development institution in areas of dense of industry clusters
2. Product design and innovation
3. Product and process improvement and development of improved packaging techniques
4. Common facility centre
5. Manpower development/ training.

VII. Central Footwear Training Institutes

There are 4 CFTIs in Agra, Madras, Culcutta and Bombay. Their main functions are;

1. Training of manpower for footwear industry
2. Developing designs/ new types of footwear to promote exports.

VIII Associated Institutions

Some specialized institutions are working in various fields for developmental work relating to small scale industries. Viz

1. Integrated Training Centre (Inds), Nilokheri, Haryana
2. National Institute for Small Industry Extension and Training (NISIET), Hydrabad and
3. National Institute for Entrepreneurship and small business development (NIEs BUD), New Delhi.

These institutes undertake development of human resource skills and conduct EDP Programmes for entrepreneurs and meet the training needs of the industry. They also act as centers for information.

IX National Small Industries Cooperation (NSIC)

The NSIC was set up in 1955 for providing the following specific assistance to small scale industrial units.

1. Machinery hire purchase scheme for small scale units
2. Equipment leasing scheme
3. Marketing supporting programmes under consortia marketing
4. Procurement of bulk orders, brand franchising and institutional marketing support under single point registration scheme.
5. Technology assistance
6. Development and training activities.

**Chart II**

In addition to these major institutions working for SSI units there are some other institutions which have been helpful in promoting them viz. The National Institute of Design (NIOD), The Institute of Packaging, The Indian Standards Institute, The National Research Development Corporation, The National Productivity Council, etc.
**Sub – Contract Exchanges**

Fifteen subcontract Exchanges have been established in major SISIs to promote interaction between small and large units. They organize vendor development programmes and promote ancillarisation.

**State Government and the SSIs**

State governments also involve and implement policies and programmes for development of small scale industries. They are operated through the Directorate of Industries set up in each state. State Small Industries Development Corporations play an important role in the promotion of small industries particularly in the field of supply of machinery, raw materials and marketing.

**District Industries Centres (DICs)**

There are 422 district Industries Centres set up in 431 districts of the Country Leaving out the metropolitan cities and some new districts. This programme was started in May 1978 as centrally sponsored scheme with the Central Government providing 50 percent assistance.

The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneur are provided under a single roof through the DICs. They are the implementing arm of the Central and State Governments of the various schemes and programmes.
Registration of SSIs is done at the DIC. The PMRY for employment generation is also implemented by the DICs.

Management of the DICs is done by the State Governments. The scheme has now been transferred to states and from the year 1993 – 94 funds will not be provided by the Central Government to the States for running the DICs.

The DIC has emerged as the focal point for all industrial activities in the district. The DICs are staffed by a General Manager assisted by manager in economic investigation, machinery, credit, raw materials, village industry, training and marketing. These are key areas where SSI need support.

The institutions and organisation for the promotion of small scale industries at state level are;

1. Commissioners and Directors of Industries,
2. District Industries Centres,
3. State Industrial development Corporations,
4. State Small Scale Industries Development Corporations

Each state has a Khadi and Village Industries Board to promote the rural and village industries. Technical and consultancy organizations have been set up in many states. Separate Boards and Corporations have been set up to look after distribution of raw materials and to supervise Industrial Estates. State Financial Corporations have been set up to provide financial assistance to small scale industries.
Assistance Programmes for SSIs In India

The Central and State governments have initiated a few assistance programmes for the promotion of SSIs. More important of these are;

1. Establishment of Industrial Estates
2. Reservation of products for exclusive production by the SSI sector
3. Purchase preference scheme under which government agencies to purchase their requirements from the SSIs.
4. Ancillarisation programme under which SSIs are linked liked up with large units.
5. Supply of machinery on hire purchase basis to SSIs on easy terms of payment and
6. Technical counseling to SSI for improving their efficiency and viability.

Industrial Estates

Industrial Estates provide workshops to SSI units with transport, electricity and communication facilities and common service equipment. The workshops are provided at subsidised rates. The OKhla Industrial Estate was set up for the first time in India in 1957 and subsequently the total number of such Estates exceeded 500. The Industrial Estate is considered as the largest programme of its kind in the world. Industrial Estates help in;

i. Creation of new employment opportunities in urban and semi urban areas

ii. Dispersing industry outside the metropolitan towns
iii. Relocation existing units operating in congested areas
iv. Providing subcontracting opportunities to small industry and
v. Raising the efficiency of operation of SSI units through common facilities.

**Production Reservation Scheme**

Certain product groups have been exclusively reserved for SSI units for production in the country. The government's policy is to encourage SSI units by eliminating competition from large units in producing these products through 'reservation' scheme. A wide variety of products are reserved for production by the SSI sector. Nearly 834 items have been reserved for production by the SSI units in India. Critics have suggested that reservation policy should not result in rapid obsolescence if the units do not respond to rapid technology changes.

**Purchase Reservation Scheme**

Products are categorized under this scheme as follows

I. Those purchases which are made exclusively from the SSI sector
II. Those purchases which are made from small scale sector upto 75 percent of the requirement
III. Those purchases which are made from small scale sector upto 50 percent of the requirement

These purchase relate to purchases by the Government agencies from the SSI units. The scheme has not made much impact as the actual value of purchases made by the government from SSI unit is low. The purchases made by DGS...
and D the main central purchasing agency amounted to only 10 percent from the SSI units. In USA the Government purchases from SSI units amount to 35 percent of the total purchases.

"Government can do a great deal to encourage local producers to supply a wide diversity of articles required by government institutions like schools, hospitals and offices many of which can be supplied by the small units locally".6

**Price Preferences for SSI Products**

The Government has allowed 15 percent price preference to the products sold by SSI units. Higher price of 15 percent over the price of products of large units is allowed under this scheme. The price preference to SSI units is given by the DGS and D only when a small unit and a large unit actually compete for the same product. This is not often the case. Moreover the quality of SSI product is not taken into consideration and if it is not identical with the quality of the product of a large unit the price preference is disallowed.

**Ancillarisation (Sub-Contracting)**

Ancillarisation or sub contracting is defined as under;

"A Subcontracting relation exists when a company (called a contractor) places an order with another company (called a sub-contractor) for the

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6 Ram K. Vepa: Modern Small Industry In India Sage Publications, New Delhi 1988 p95
production of parts components, sub assemblies to be incorporated into a product sold by the contractor. Such orders may include processing, transformation or finishing at the request of the contractor."

This type of relationship can be for a long period or 'one shot affair'. The former is called ancillary development programme. Ancillary programmes help in assuring market for all or a portion of their production.

**Financial Assistance To SSI Units**

SSI units need credit both for fixed assets and for working capital. The SSI sector gets a less than proportionate share of the total volume of credit available from the banks. Bank credit is primarily geared to trading operations and in some cases to large industry.

Following are the sources of credit to SSI units

1. SFCs for fixed capital
2. Commercial banks for working capital
3. Cooperative banks for working capital to units organized on cooperative basis.
4. SFCs, Small Industry Development Corporations and banks extend equity assistance
5. NSIC provides machinery on hire purchase basis and
6. The IDBI and now the SIDBI and NABARD provide refinance facilities to the banks and SFCs for lending to SSIs and village industries respectively.
Small Industries Development Bank of India (SIDBI)

SIDBI is an apex bank set up to meet the credit needs of the small scale sector. The bank commenced operations on 2nd April, 1990.

SIDBI extends financial assistance to the SSI sector mainly through:

i. Refinance of term loans
ii. Discounting and rediscounting of bills
iii. Extension of equity type assistance
iv. Resource support to institutions providing raw materials, hire purchase, leasing and marketing assistance etc. to SSI sector
v. Specialised schemes for direct assistance

SIDBI has started/assisted some new schemes viz launching of Technology Development and Modernization Fund Scheme and enlarging the scope of National Equity Fund Scheme.

The financial assistance of SIDBI to SSI units in the country is channelised through the existing credit delivery mechanism comprising SFCs, State Industrial Development Corporation, Commercial Banks, Cooperative Banks and RRBs which have vast network of branches in the country.

SIDBI has also introduced direct finance schemes for specialised marketing agencies, sub contracting/ancillary units and infrastructure development agencies so as to fill the gaps in these areas in the existing credit delivery mechanism.
State Financial Corporations (SFCs)

SFCs grant the loan for the purchase of land, construction of factory premises and purchase of machinery and equipment for setting up of new industries for expansion or modernization of the existing units. SFCs generally prescribe a margin of 25 percent and allow an initial holiday of two years for the loan repayment (this period can be increased to five years in backward districts).

Credit Policies

Credit to SSI units come under Priority Sector lending programme of banks. Based on the recommendation of the Nayak Committee RBI has directed the commercial banks to meet the working capital needs of SSI units by working out the normative requirement at 20 percent of the annual output subject to a limit of Rs 1 Crore. RBI has also suggested the banks to setup specified 85 districts where small units have sizable concentration. The rate of interest is 12 percent on loan up to Rs 25000 and fixed rate of Rs 13.5 percent is charged on loan over Rs 25000 and up to Rs 2 lacks.

Fiscal Incentives

Central Government provides a host of fiscal incentives to small scale industries

Following are the tax concessions.
Excise Exemptions

1. Excise duty exemption and concessions are available to small scale units with turnover upto Rs.300 lakhs under the excise duty exemption scheme. The turnover limit has been raised to Rs.300 lakhs since 1995-96.

2. The exemption and concessions for registered units are as under

<table>
<thead>
<tr>
<th>Value of Clearance</th>
<th>Rate of Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs.30 lakhs</td>
<td>Nil</td>
</tr>
<tr>
<td>30-50 lakhs</td>
<td>Normal rate reduced by 10 percentage point subject to minimum of 5 percent</td>
</tr>
<tr>
<td>50-75 lakhs</td>
<td>Normal rate reduced by 5 percentage point subject to minimum of 5 percent</td>
</tr>
<tr>
<td>75 – 300 lakhs</td>
<td>Normal duty</td>
</tr>
</tbody>
</table>

Excise duty exemptions have been given to the SSIs under the General Excise Duty Exemption Scheme for small scale industries to compete on favourable terms with their counterparts in the large and medium sector.

Exemption Under Direct taxes

Income Tax Exemption

1. Like any other industrial unit, new small scale units can avail income tax rebate by way of deduction equal to 25 percent of their profits for a period of 10 years (Section 80-1A of Income tax Act) provided the unit employs more than 10 persons.
2. In 1993-94 budget, Government has announced a Five Year Tax Holiday for all types of new industries if set up in selected backward states and union Territories (where all the districts are backward). This scheme has been extended to other backward districts (to be identified).

**Small Scale Industries in Karnataka**

Karnataka is among the top five industrialized States in the country. The state has the distinction of building a strong and vibrant industrial strengths of large industrial public sector under takings large and medium privately owned industries and a very wide and dispersed small scale sector.

The achievements in the industrial sector in Karnataka during the period 1996-97 to 2000-2001 are mentioned in the following table.

**Table No.4.6 Industries in Karnataka (2001-2002)**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Sector</th>
<th>No of Units Established</th>
<th>Investment in Rs Cr</th>
<th>Employment in Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Small Scale Industries</td>
<td>93.845</td>
<td>3008.78</td>
<td>444259</td>
</tr>
<tr>
<td>2</td>
<td>Medium Scale Industries</td>
<td>194</td>
<td>2499.96</td>
<td>46703</td>
</tr>
<tr>
<td>3</td>
<td>Large and mega Industries</td>
<td>21</td>
<td>8682.62</td>
<td>13331</td>
</tr>
</tbody>
</table>

The new Industrial Policy 2001 of Karnataka has emphasized the significance of the SSI Sector thus;

"Fully tap the potential of small scale sector and encourage establishment of new tiny and Small scale Industries, particularly in the rural areas to achieve the twin objectives of employment generation and utilization of local resources. Towards this end Government will undertake, through an expert group, a detailed study of the small scale industrial sector in the state to ascertain their present status; problems and prospects and come out with a separate policy on employment generation in the industrial sector which among other things would also include a suitable incentive schemes linked to employment generation."

Towards this end the policy further states that the strategy would be to “Assist the tiny, small and medium scale industries to upgrade their technologies and manufacturing processes to face increasing competition”

**Growth of SSI sector in Karnataka**

The total number of small scale industries units as on 31-03-2002 was 286189 with total investment of Rs.5755.38.55 lakhs and a total employment of 1661819 persons. District wise distribution of SSI units reveal that Bangalore (urban) district has the maximum number of 52,219.

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7 New Industrial policy 2001 dept of Industries And Commerce. Govt of Karnataka pp 4-5, June 2001 Bangalore.
SSI units with an investment of Rs.1, 50,953.68 lakhs providing employment to 4,36,198 persons. Other districts where the total number of SSI units is substantial are Belgaum (26,466 units), Mysore (17,586 units), Tumkur (16,993 units), D.Kannada (13,524 units), Bangalore (Rural) (12,994 units), Dharwad (11,151 units), Bellary (1,098 units), Kolar (1,0815 units), Shimoga (10,717 units) and Gulbarga (10,138 units). The following table provides the details regarding the number of SSI units, amount of investment and employment.
<table>
<thead>
<tr>
<th>SI No.</th>
<th>District</th>
<th>Unit (Nos)</th>
<th>Invest. (Rs. Lakhs)</th>
<th>Empty. (Nos)</th>
<th>Invest. (Rs. Lakhs)</th>
<th>Empty. (Nos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banagalore(U)</td>
<td>2666</td>
<td>11498.13</td>
<td>17032</td>
<td>52219</td>
<td>150953.68</td>
</tr>
<tr>
<td>2</td>
<td>Belgaum</td>
<td>1385</td>
<td>4255.27</td>
<td>5969</td>
<td>26466</td>
<td>42097.83</td>
</tr>
<tr>
<td>3</td>
<td>Bellary</td>
<td>621</td>
<td>2126.32</td>
<td>2557</td>
<td>10958</td>
<td>23968.99</td>
</tr>
<tr>
<td>4</td>
<td>Bijapur</td>
<td>422</td>
<td>1239.81</td>
<td>2070</td>
<td>5277</td>
<td>8432.66</td>
</tr>
<tr>
<td>5</td>
<td>Bidar</td>
<td>360</td>
<td>775.76</td>
<td>1619</td>
<td>6556</td>
<td>11323.95</td>
</tr>
<tr>
<td>6</td>
<td>Chickmagalur</td>
<td>287</td>
<td>702.12</td>
<td>1007</td>
<td>4863</td>
<td>6745.74</td>
</tr>
<tr>
<td>7</td>
<td>Chitradurga</td>
<td>339</td>
<td>798.47</td>
<td>1409</td>
<td>6544</td>
<td>10725.07</td>
</tr>
<tr>
<td>8</td>
<td>Kodagu</td>
<td>172</td>
<td>816.11</td>
<td>614</td>
<td>2946</td>
<td>5337.79</td>
</tr>
<tr>
<td>9</td>
<td>Dharwad</td>
<td>1034</td>
<td>2452.14</td>
<td>3683</td>
<td>11151</td>
<td>22682.68</td>
</tr>
<tr>
<td>10</td>
<td>Gulbarga</td>
<td>564</td>
<td>1068.49</td>
<td>2150</td>
<td>10438</td>
<td>15218.38</td>
</tr>
<tr>
<td>11</td>
<td>Hasan</td>
<td>568</td>
<td>1226.49</td>
<td>2148</td>
<td>7737</td>
<td>12669.32</td>
</tr>
<tr>
<td>12</td>
<td>Uttar Kannada</td>
<td>306</td>
<td>1266.41</td>
<td>1496</td>
<td>6142</td>
<td>12739.67</td>
</tr>
<tr>
<td>13</td>
<td>Da. Kannada</td>
<td>822</td>
<td>1307.31</td>
<td>2440</td>
<td>13524</td>
<td>27260.94</td>
</tr>
<tr>
<td>14</td>
<td>Kolar</td>
<td>613</td>
<td>2318.7</td>
<td>3104</td>
<td>10815</td>
<td>28230.05</td>
</tr>
<tr>
<td>15</td>
<td>Mandya</td>
<td>470</td>
<td>1057.14</td>
<td>1702</td>
<td>6774</td>
<td>10784.69</td>
</tr>
<tr>
<td>16</td>
<td>Mysore</td>
<td>1100</td>
<td>2440.07</td>
<td>3447</td>
<td>17586</td>
<td>27991.22</td>
</tr>
<tr>
<td>17</td>
<td>Raichur</td>
<td>488</td>
<td>1122.69</td>
<td>1631</td>
<td>6803</td>
<td>12652.59</td>
</tr>
<tr>
<td>18</td>
<td>Shimoga</td>
<td>516</td>
<td>1110.13</td>
<td>2061</td>
<td>10717</td>
<td>15814.45</td>
</tr>
<tr>
<td>19</td>
<td>Tumkur</td>
<td>1025</td>
<td>2281</td>
<td>3639</td>
<td>16993</td>
<td>30213.95</td>
</tr>
<tr>
<td>20</td>
<td>Banagalore(R)</td>
<td>1032</td>
<td>2654.22</td>
<td>4184</td>
<td>12994</td>
<td>29666.47</td>
</tr>
<tr>
<td>21</td>
<td>Bagalkote</td>
<td>342</td>
<td>1076.12</td>
<td>1646</td>
<td>5093</td>
<td>7797.98</td>
</tr>
<tr>
<td>22</td>
<td>Chamrajnaragar</td>
<td>277</td>
<td>494.74</td>
<td>1293</td>
<td>6616</td>
<td>5827.61</td>
</tr>
<tr>
<td>23</td>
<td>Davangere</td>
<td>444</td>
<td>640.06</td>
<td>1507</td>
<td>5721</td>
<td>13354.33</td>
</tr>
<tr>
<td>24</td>
<td>Gadag</td>
<td>339</td>
<td>398.82</td>
<td>1109</td>
<td>5746</td>
<td>6657.81</td>
</tr>
<tr>
<td>25</td>
<td>Haveri</td>
<td>209</td>
<td>422.04</td>
<td>866</td>
<td>6687</td>
<td>4981.80</td>
</tr>
<tr>
<td>26</td>
<td>Koppal</td>
<td>220</td>
<td>604.69</td>
<td>873</td>
<td>3233</td>
<td>8257.32</td>
</tr>
<tr>
<td>27</td>
<td>Udupi</td>
<td>363</td>
<td>1700.35</td>
<td>1936</td>
<td>5581</td>
<td>22851.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16964</strong></td>
<td><strong>47883.6</strong></td>
<td><strong>73192</strong></td>
<td><strong>286189</strong></td>
<td><strong>575538.55</strong></td>
<td><strong>1664819</strong></td>
</tr>
</tbody>
</table>

Source: Kaigarika Varthe, Govt of Karnataka, Bangalore, Aug/Sept.2002, p.20
Institutional Infrastructure and Schemes of Assistance and Incentives for SSI sector in Karnataka

Karnataka has setup a few institutions for the promotion of SSI units. These institutions with a network of branches at district and other centers have been providing assistance in different areas viz finance, marketing, supply of raw materials, training, etc. A brief account of these institutions and schemes of assistance and incentives is given here.

Karnataka Small Scale Industries Development Corporation (KSSIDC)

KSSIDC takes the work of construction and maintenance of Industrial Estates in some selected areas. Under this scheme the KSSIDC allots sheds to SSI units at the rental stage on ownership basis. It plays an important role in supplying raw material to small industrial units. The DIC provides co-ordination to KSSIDC in this direction.

Karnataka State Khadi and Village Industries Board

The KSKVB performs the following functions;

i. Helping the rural people to establish cottage industries]

ii. Helping the rural people by creating employment opportunities and

iii. Helping the rural industries through loans and grants

Karnataka Leather Industries Development Corporation

KLIDC has been providing the following benefits for the scheduled castes and scheduled tribes to promote their traditional occupation in this field.
i. Supply of roadside Leather wear sheds
ii. Training in manufacturing of shoes free of cost
iii. Supply of leather wares decorating articles
iv. Supply of ready made raw materials for making shoes
v. Purchase of ready made shoes from the shoe manufacturers and selling them through its marketing stalls

**Karnataka Small Industries Marketing Corporation**

The KSIMC provides a package of marketing assistance to small scale industries set up in Karnataka State.

1. Participation in tenders floated by government quasi government organizations on behalf of SSI units.
2. Exemption from payment of earest money deposit and security deposit for the tenders participated
3. Procurement of bulk orders and distribution among SSI units
4. Dissemination of information to SSI units about market potential through bulletins brochures etc.
5. Participating in the tenders issued by DGS and D and other organizations.
6. Participation in national international fairs and exhibitions on behalf of SSI units
7. Assisting SSI units for testing products through recognized Central / State government institutions
8. Export assistance to SSI units

9. Assisting SSI units in product development, product improvement etc in collaboration with National Institute of Design, Export Promotion Councils, etc.

10. Bill discounting upto 75 percent of the value of the bill on the production of acceptance certificates from indenting departments

11. KSIMC is marketing the consumer goods manufactured SSI units through its hire purchase scheme.

**Karnataka State Financial Corporation**

KSFC provides long and medium term financial assistance to new units in the medium and SSI sector upto Rs.90-lakhs. Finance is also given to existing units for expansion/ renovation/ modernization/ and diversification.

**Special Schemes of Assistance of KSFC**

i. Technician scheme

ii. Educated Unemployed Scheme

iii. Scheme for disabled entrepreneurs

iv. Equipment finance scheme

v. Modernisation scheme

vi. Mahila Udyam Nidhi Scheme

vii. Scheme for Quality Control Facilities

viii. Electro-medical Equipment

ix. Finance for Hospitals/ Nursing homes
Incentives For the SSI Units

The main responsibility for development of small scale industries rests with the State / Union Territories Governments. They provide a wide range of facilities, concessions and incentives. Some of the important incentives/facilities provided at the State level are given here.

i. Land, developed plots and sheds in industrial estates on easy terms

ii. Necessary infrastructure at developed sites i.e. power, water, communication, etc.

iii. Capital subsidy on investment on fixed assets in selected backward areas

iv. Sales tax deferment / tax holiday

v. Relief on octroi, electricity duty, stamp duty.
vi. Interest subsidy  

vii. Power subsidy, subsidy on generating sets  

viii. Financial assistance for preparation of project reports  

ix. Seed capital for starting projects  

x. Subsidy for obtaining technical Know how  

xi. Subsidy for testing the products in approved test houses  

**Investment Subsidy for SSI Units in Karnataka**  

The details of investment subsidy available to tiny/Small Scale Sector industries in different Zones will be as follows.

**Table No. 4.8 Investment Subsidy 2001-2002**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Particulars</th>
<th>Industry Sector Eligible for Subsidy</th>
<th>Investment Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Developed Areas</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>Developing Areas</td>
<td>Tiny Industry</td>
<td>10 percent value of fixed assets subject to Max of Rs.10 lakhs</td>
</tr>
<tr>
<td>C</td>
<td>Backward Areas</td>
<td>Tiny Industry</td>
<td>20 percent value of fixed assets subject to Max of Rs.10 lakhs</td>
</tr>
<tr>
<td>D</td>
<td>(Areas Specified by Govt)</td>
<td>Tiny and small scale Industries</td>
<td>25 percent value of fixed assets subject to a max of Rs.12-50 lakhs</td>
</tr>
</tbody>
</table>

### Table No.4.9 Exemption of Stamp Duty & Registration Charges Applicable

#### 2001-2002

<table>
<thead>
<tr>
<th>Zone</th>
<th>Extent of Exemption on Stamp Duty</th>
<th>Regn. charges Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tiny SSI</td>
<td>Medium &amp; Large Scale Industry</td>
<td>Tiny and SSI Medium and Large Scale Industry</td>
</tr>
<tr>
<td>A</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>C &amp; D</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Ibid. p17.