CHAPTER 3

INDIAN INDUSTRIES - AN OVERVIEW

3.1 Evolution of Industries in India

During the Mughal period, India had a considerable variety of arts and handicrafts which indicated more advanced economic and financial organization than the crafts of contemporary Europe. In the 17th century, India was a hub of world commerce and magnet of world’s precious metals. At a time, when the west of Europe, the birth place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the artistic skill of her craftsmen. And even at a much later period, when the merchant adventure from the West made their first appearance in India, industrial advancement of this country was at any rate, not inferior to that of more advanced European nations.

India, one of the largest democracies in the world with oldest civilization and rich cultural heritage has achieved multifaceted socio economic progress during the last fifty years. It is now the tenth industrialized country in the world. The process of industrialization in India in the first four decades of independence was governed by two considerations- import substitution and industrial licensing. This inward looking industrialization process did result in high rates of industrial growth between 1956 and 1966. However, several weaknesses of such a process of industrialization soon became evident, as inefficiencies crept into the system and the economy turned into an increasingly high cost one. Over a period of time, this led to a technological lag.

Till 1991, the Indian economy, designed largely on socialistic patterns, was characterized by highly regulated business environment, pervasive
license system, and high tariff barriers. Sweeping reforms introduced by successive Governments have radically changed the course of the economy. Today, Indian economy is far simpler, liberal, transparent, and geared towards promoting private investments, both domestic and foreign. External trade has been liberalized, tariffs steadily lowered, and import controls progressively reduced. Tax ratio both corporate and personal, have been rationalized and are at present amongst the lowest in the world.

3.2 Industrial Policies of the Government

The concept of Industrial Policy is comprehensive and it covers all those procedures, principles, policies, rules and regulations which control the industrial undertakings of a country and shape the pattern of industrialization. The Industrial Policy of the Government of India had a long history extending to the period before independence. When the hints of independence were given in 1940s, discussions started on Industrial policy of the independent India. There were mainly two schools of thought – one, the Gandhian thought of emphasizing cottage and small scale industries and two, the Nehruvian thought of emphasizing on large scale industry and sophisticated technology. A compromise was attempted through the 1948 Industrial Policy Resolution where in the sectoral classification of large scale industry is given and at the same time, role of cottage and small scale industries was also emphasized.

The vision and determination of the first Prime Minister of India, Pandit Jawaharlal Nehru has left a lasting impression on every facet of national endeavour since Independence. Due to the initiative of the first ministry of independent India, the country now has a strong and diversified industrial base and is a major industrial nation of the world.

The Government of India has been undertaking several policy measures and incentives, from time to time, in order to promote rapid
industrialization in the country. The major step in this direction has been the announcement of Industrial Policy Resolution, initially passed in 1948 and then in 1956 and thereafter in 1991. Such industrial policies have been designed to accelerate the development process in the Indian industry.

**Committees of Industrial and Trade Policies**

In the early 1980s, three important committees namely, Abid Hussain Committee, Narasimhan Committee and Sen Gupta Committee were set up to review the industrial and trade policies. These committees recommended the easing up of trade policy, the substitution of physical and quantitative controls, promotion of greater public sector autonomy and the need for measures for enhancing productive efficiency and technological modernization.

**3.3 Policies in brief**

In 1948, immediately after Independence, the Government introduced the Industrial Policy Resolution, which was the prime document on policies of industrialization of the nation. It emphasised the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution.

The Government of India for the first time invited an International Planning Team in 1953, to study the problems of small scale industries and to recommend measures.

**3.3.1 Industrial Policy 1956**

Though there was a strong thought for rapid growth of Micro Small and Medium Enterprises prior to independence, yet the thrust for its growth came with independence and formulation of Five Year Plans. The Industrial Development Act of 1948 assigned primary importance to the development of
small scale industries. This has been reiterated in subsequent Policy Statements. A detailed Policy Statement covering Large, Medium and Small Scale Industries came in the Industrial Policy Resolution 1956.

After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it has been modified.

The Industrial Policy Resolution of 1956 had as its objective the acceleration of the rate of economic growth and the speeding up of industrialization, as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship was not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.

The 1956 Policy Resolution says that “the Government would stress the role of cottage, village and small scale industry in the development of the national economy through small scale industries – provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of SSI production all over the country”

The aim of this Policy will be to ensure that the decentralized sector acquires sufficient vitality to the self supporting, and its development is integrated with that of the large scale industry.

The Industrial Policy statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies was permitted. The Industrial Policy Statement of 1977 laid
emphasis on decentralization and on the role of small-scale, tiny and cottage industries. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological upgradation and modernization. The policy laid the foundation for an increasingly competitive export based economy and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi who emphasised the need for productivity to be the central concern in all economic activities.

The Industrial Policy 1980 is a significant milestone for small scale industries which provided host of incentives to small scale industries. Additional incentives were announced in 1986.

A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi. They were aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and making our industry ready to stand on its own in the face of international competition. Government recognized the need for letting free the public sector from the constraints and the need for giving larger measure of autonomy.

In 1988, all industries excepting 26 industries specified in the negative list were exempted from licensing, subject to investment and locational limitations.

The Industrial Policy 1990 recognised the need for preparing the Indian industry to respond effectively to emerging challenges. Public sector was let free from a number of constraints.
3.3.2 Industrial Policy 1991

Far reaching changes have been announced in 1991, which is considered as a revolution ushering new economic era. The Industrial Policy 1991 stated that the Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in Research and Development, bringing in new technologies, dismantling of the regulatory system development of capital markets and increased competitiveness for the benefit of common man. The Policy statement included abolition of industrial licensing for most industries. Compulsory licensing was required only in respect of eighteen industries. Foreign Direct Investment up to 51 percentage foreign equity was permitted in high priority industries requiring large investments and advanced technology, and also in companies engaged in export activities. Procedure for hiring foreign technical expertise is eased. Pre-entry scrutiny of investment decisions of MRTP Companies was abolished. The provisions restricting mergers, amalgamations and takeovers were also repealed.

Since 1991, the Government has ensured a liberal and transparent foreign investment regime where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership. Foreign Direct Investments up to 100 percentage has also been allowed for activities in Special Economic Zones. From 2004, the Foreign Direct Investment limits were raised in various sectors. The Government has adopted a policy of de reservation and has pruned the list of items reserved for small scale sector.

For the development of industries in the North Eastern region, North East Industrial and investment Promotion Policy 2007 was announced on 1-4-2007.
3.4 The scenario after 1991

In the process of development, India adopted the import substitution strategy at the beginning and later on the strategy of self-reliance and minimum dependence on foreign resources for production. The performance of industrial sector was not bad and the economic growth was positive after 1966. As a result, there was a shift from the import substitution industries strategy to export oriented industries strategy. The industrial growth rates of some sectors during 1991-95 slowed down indicating an industrial recession. The slowdown in the capital goods industry and declining annual goods rates in mining industry were the causes of concern. The textile industries sector was also badly affected and about half of old textile mills were closed down.

The industrial sector recorded an average annual compound growth rate of 4.6 percentage from 1970-‘71 to 1979-‘80 and 6.6 percentage from 1980-‘81 to 1989-‘90 (at constant prices). It achieved a growth rate of 8.5 percentage in the Seventh Plan (1986-‘86 to 1989-‘90). The average annual growth rate of the industrial sector including mining, manufacturing and electricity generation during the Seventh Plan and the Annual Plan 1990-‘91 was 8.5 percentage. After this, particularly since the new Industrial Policy was adopted, the rate of growth was quite low but rising as 0.6 percentage for 1991-‘92, 2.3 percentage for 1992-‘93, 6 percentage for 1993-‘94, 9.4 percentage for 1994-‘95 and 13.1 percentage for 1995-‘96. This shows the success of the Industrial Policy in the country. When India opened up her market fully in 1996, there was again a declining trend.

Since 1996-‘97 the industrial recovery was significant with accelerated growth rates in various sectors of the economy. A good harvest in 1998-‘99 resulted in greater demand for industrial product and improved capacity utilization. Fiscal package including rationalization of industries, new
programme of rural industrialization and specific measures for the small scale are the major factors that are behind the industrial recovery.

Though the growth of the industrial sector started to slowdown in the first half of 2007-‘08, the overall growth during the year remained as high as 8.5 percentage. The industrial sector witnessed a sharp slowdown during 2008-‘09 as a consequence of successive shocks, the most important being the knock-on effects of the global financial crisis. The pace of slowdown accelerated in the second half of 2008-‘09 with the sudden worsening of the international financial situation and the global economic outlook. The year 2008-‘09 thus closed with the industrial growth at only 2.4 percentage as per the Index of Industrial Production (IIP). The Compound Annual Growth Rate rose from 4.5 percentage in the Ninth Five Year Plan (1997-2002) to 8 percentage in the Tenth Five Year Plan (2002-2007). Manufacturing showed particular dynamism, the CAGR rising from 3.8 percentage in the Ninth Five Year Plan to 8.7 percentage in the Tenth Five Year Plan. The annual growth rate of manufacturing rose consistently from 2002-‘06, registering 12.3 percentage in 2006-‘07. For the first time in many years, industrial growth at 10.9 percentage almost equaled the in real terms (9.1percentage). In October 2011, the industrial growth rate is the lowest since March 2009 when it had contracted by 5.2 percentage. The decline in industrial production has mainly been on account of poor performance of the manufacturing and mining sectors, high prices, depreciating rupee, high interest rate and global slowdown. Government of India has been giving more importance for MSME sector by increasing the Plan outlays for the sector.

Though MSMEs constitute more than 80 percentage of the total number of industrial enterprises and supporting industrial development, many MSMEs in India have problems such as sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic
and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario.² The Government is planning to increase financial assistance for micro, small and medium enterprises (MSMEs) to 80 per cent of their capital requirements in the 11th Five Year Plan. This aid will go towards technology upgradation and plugging of financial gaps. It will be available for existing MSME clusters as well. The Plan outlays for the Five year Plans for MSME sector (Rupees in crores) is depicted.

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<tr>
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<tbody>
<tr>
<td>1,629.55</td>
<td>4,303.85</td>
<td>5,534.00</td>
<td>11,500.00</td>
</tr>
</tbody>
</table>

Source: 11th Five year Plan, Planning Commission, Govt. of India

3.5 Micro and Small Enterprises – A Profile

Ever since the Industrial Revolution in Europe in the eighteenth century, the concept of “Small Scale Industry” or “Small Enterprise” has come into the fore. Various parameters have been laid down in different countries to describe as to what they are and what they ought to be and in what way they are different from large and medium industries on the one hand, and cottage industries and handicrafts on the other. These parameters have changed continually in various countries mainly due to operational considerations and partly to suit the changing needs of economic and social conditions.

Since the Boltan Committee Report – the Report of the Committee of Enquiry on small firms – was published in England in 1971, the small firms have come to the focus in Great Britain and all developing countries of the world. Boltan Committee in its report advocated for fostering the growth of small scale sector mainly for the following reasons. (1) It is labour intensive
and creates more employment opportunities. Its demand for capital is much less. It prevents concentration of economic power into a few hands and thereby advertises the hold of big corporations over Government.

The strategy of economic development of any country that envisages measures for alleviating conditions of poverty of masses by providing large scale employment, education and training, capital formation, effective mobilization of resources, dispersal of industry, balanced regional development, expansion of trade and equitable distribution of national income with the active involvement and participation of all the citizens in accomplishing its goals cannot relegate small scale industry to the background.

Small scale industry has grown rapidly over the years. It is a well recognized fact that vibrant small scale sector holds the key to economic prosperity in an economy like India, which is characterized by abundant labour supply, unemployment and under employment, capital scarcity, growing modern large industrial sector giving scope for ancillarisation and so on. The sector has grown phenomenally during the past five decades. The small scale Sector contributes about 35 percentage of India exports earning by way of direct exports. It is more than 50 percentage if we consider the contributions of indirect exports. This sector which manufactures a wide range of more than 8000 products not only caters to the demands of the lower income groups with inexpensive consumer goods and services, but also acts as a ‘nursery’ for the development of entrepreneurial talent.

3.5.1 Meaning

In most of the countries of the world, the criterion for defining a small industry is based on the size of employment, although this size may vary from country to country. In addition to number of employees, the other methods
used to classify small companies include annual sales, value of assets, and net profit alone or in a mixed definition.

For instance in USA, according to Small Business Act of 1953, small business is one which has an employment of less than 500 and this definition is followed for the purpose of Government purchases from these units. Another criterion, for the purpose of their eligibility of certain benefits, such as loans and technical assistance, is employment of 250 to 1000 persons. In U.K. small scale industry is one with less than 20 skilled workers, excluding administrative personnel, unskilled workers and trainees. The number of workers in small scale sector varies from country to country. In Sweden it is less than 50, in Germany it is less than 300 and in Italy it is less than 500 workers. In African countries the number is less than 100 and in Latin American countries it is between 5 and 50 workers. In some countries, in addition to the employment, investment is also taken into consideration for defining small industries. Accordingly, in Italy, the upper limit of investment in small industrial unit should not exceed 1500 million lira. In Japan, the investment should not exceed 50 million yen with the employment of 300 persons. In South Korea, investment limit is 2,00,000 dollars and employment limit is 200 persons.

Similarly, some Asian countries like Pakistan and Thailand use investment and power consumption as the criteria for defining small industries. The criterion followed in Indonesia is a maximum of ten workers without using power. In Turkey, using less than 10 HP machine is the criterion. India follows the criteria of employment, power and also investment for defining small industries.
3.5.2 Definition

No universally acceptable definition to the term small scale industry is available. It has been defined in different ways by different persons in different countries. In India, small industry has been defined on the basis of capital invested in fixed assets, size of employment, etc. and definitions of small scale industry have changed over years as follows.

DEFINITIONS OF MSMEs IN INDIA - VARIOUS PERIODS

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment limit</th>
</tr>
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<tbody>
<tr>
<td>1955</td>
<td>Not exceeding 5 lakhs in land, buildings and equipments if the number of workers is less than 50 and the unit uses power and less than 100 if not using power.</td>
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<tr>
<td>1959</td>
<td>Not exceeding 5 lakhs in land buildings and equipments if the employees are less than 50 per shift using power and less than 100 per shift if not using power</td>
</tr>
<tr>
<td>1960</td>
<td>Not exceeding 5 lakhs in capital assets and for Ancillary units (means units which produce and supply not less than 50 percentage of its products or service as components, sub assemblies etc. to large scale units) investment in fixed assets not exceeding 10 lakhs and the limit regarding number of persons deleted.</td>
</tr>
<tr>
<td>1975</td>
<td>Not exceeding 10 lakhs in fixed assets and for Ancillary units investment in fixed assets not exceeding 15 lakhs</td>
</tr>
<tr>
<td>1980</td>
<td>Not exceeding 20 lakhs in Plant and machinery, for Ancillary units investment in fixed assets not exceeding 25 lakhs and for Tiny unit the limit was 2 lakhs.</td>
</tr>
<tr>
<td>1985</td>
<td>Not exceeding 35 lakhs in Plant and machinery, for Ancillary units investment in fixed assets not exceeding 45 lakhs and for the Tiny</td>
</tr>
<tr>
<td>Year</td>
<td>Investment limit</td>
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<td>units the limit remained as 2 lakhs.</td>
</tr>
<tr>
<td>1991</td>
<td>Not exceeding 60 lakhs in Plant and machinery, for Ancillary units investment in fixed assets not exceeding 75 lakhs and for the Tiny units the limit was 5 lakhs</td>
</tr>
<tr>
<td>1997</td>
<td>Not exceeding 300 lakhs in Plant and machinery.</td>
</tr>
<tr>
<td>2002</td>
<td>Not exceeding 100 lakhs in Plant and machinery, for Ancillary units investment in fixed assets not exceeding 100 lakhs and for the Tiny units the limit was 25 lakhs. The limit for the Small Scale Service Business Enterprises was 10 lakhs</td>
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</table>

The system of registration of Small Scale Industries was in existence till 2\textsuperscript{nd} October 2006 and the new system of filing Memorandum under Micro Small and Medium Enterprises Act came into practice from 03-10-2006.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Categories such as:

(a) **Manufacturing Enterprises**: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

(b) **Service Enterprises**: The enterprises engaged in providing or rendering services and are defined in terms of investment in equipment.
Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or in equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as follows:

The limit for investment in plant and machinery/equipment for manufacturing/service enterprises, as notified, vide S.O. 1642(E) dt. 29-09-2006 is as under:

<table>
<thead>
<tr>
<th>MANUFACTURING SECTOR</th>
<th>Investment in plant &amp; machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Does not exceed twenty five lakh rupees</td>
</tr>
<tr>
<td>Small</td>
<td>More than twenty five lakh rupees but does not exceed five crore rupees</td>
</tr>
<tr>
<td>Medium</td>
<td>More than five crore rupees but does not exceed ten crore rupees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SERVICE SECTOR</th>
<th>Investment in equipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Does not exceed ten lakh rupees.</td>
</tr>
<tr>
<td>Small</td>
<td>More than ten lakh rupees but does not exceed two crore rupees</td>
</tr>
<tr>
<td>Medium</td>
<td>More than two crore rupees but does not exceed five core rupees</td>
</tr>
</tbody>
</table>

3.5.3 Contribution of SSI Sector (MSMEs) in Different Countries of the World

The small scale industry sector has made significant contributions to the economy of great many nations. A statistics in 1996 revealed that out of a total of 6.5 million business establishments in Japan, SMEs accounted for 6.43 million with 98.9 percentage share. The Number of employees engaged
was 44.49 million people which was 77.6 percentage of a total of 57.35 million. Regarding the market share held by Japanese SMEs in 1996, they occupied 51 percentage of the total shipment value in manufacturing industry. In Taiwan SMEs play a very important role. They not only dominate in terms of the number of firms but also take a large share in production, value, value addition, employment and exports.

The share of MSMEs in manufacturing has been around 85 percentage in Greece, around 80 percentage in Italy, around 60 percentage in Brazil and approximately 50 percentage in Mexico. SMEs contribute an average of 60 percentage of the total employment in manufacturing sector in several countries.

The Indian scenario with regard to small scale industry sector is fast changing. From an isolated and protected environment, the Indian economy is passing through the transitional period of integrating itself with global economies. With liberalization, there have been dramatic changes in the economic environment in India. The protective framework has given way to greater competition from the large sector within the country and imports from abroad. At the global level, the technological revolution and the market orientation approach affects every aspect of business and its operations. Small scale enterprises can no longer afford to remain isolated nor can they allow redundancy in technology, management and marketing techniques. The time has now come to think globally-- not only to tap markets and increase our share of exports, but also to meet competition arising in the domestic arena as a result of the entry of multinational companies.

3.5.4 Development of Small Scale Enterprises in India

India has a rich and glorious tradition in small industries. The fine textile fabrics of India like Dacca Muslin and Kashmir shawl, brassware of
Moradbad were known to the world outside as far back as 2000 BC. There was also a well known non-textile group consisting of handicrafts of all sorts such as metal working, arms and shields manufacture, enameled jewellery, stone carrying gold and silver thread work etc. In regard; not only to cotton textiles and light metals, but also to iron manufacturing India, attained world fame.

In the early stages of industrial development, small scale industries tended to concentrate around the main commercial centers of Bombay, Calcutta, Madras etc. because facilities like transport, water supply, power, skilled labour, marketing and finance were available only in big cities. Many of these units were engaged mainly in producing consumer goods. The Second World War caused a spurt in general demand so that existing units began to expand the supply of consumer goods and new enterprises were established for the manufacture of strategic goods which were available from other countries till then. As a result of decline in imports, many new enterprises came into being. For example, the engineering – (general and electrical), chemical, pharmaceutical and metal. Thus the economic structure of small enterprises began to be broad based.

Since the Second World War, however, the cottage and village industries existed in the rural areas and employed traditional methods of production. Swadeshi movement provided political and economic background for the development of small scale enterprises. As per the Notification dated 9-5-2007, the Government of India amended the Rules and brought the Ministry of Agro and Rural industries and Ministry of Small Scale Industries into a single ministry known as Ministry of Micro, Small and Medium Enterprises.

As per a quick survey report of 4th All India Census of Micro, Small and Medium Enterprises (MSME) (2006-07) conducted by the Ministry of
MSME, there are 26.1 million MSMEs in the country. Out of this, 1.5 million are registered enterprises and 24.6 million unregistered enterprises. Of the total, 7.3 million (28 percentage) units were manufacturing and 18.8 million (72 percentage) engaged in service. These units were largely in Apparel (14.03) followed by food products and beverages (13.53) and maintenance of personal and household goods (9.25).

The number of women enterprises with 2.1 million constitutes 8 percentage of the total. There were 14.2 million rural enterprises constituting 54.4 percentage. The MSME sector accounts for employment of 59.7 million persons, of which 9.5 million are in registered units and 50.2 million in the unregistered units. The average number of workers per unit was 5.9 in the registered units, the numbers was only 2 in the unregistered units, which pushed down the average number of workers to 2.3 per unit.

The per unit employment was also found to increase from 4.48 in 2001-02 to 6.24 in 2006-07. There was a decrease in the closure of MSMEs from 39 percentage in 2001-02 to 21.64 percentage in 2006-07. It was also revealed that there had been an increase in per unit fixed investment to ` 33.78 lakh from ` 6.68 lakh, and per unit gross output from ` 14.78 lakh to ` 46.13 lakh. Employment per one lakh fixed investment comes to 0.19. Based on the data of Gross Domestic Product (GDP) published by Central Statistical Office, Ministry of Statistics and Programme Implementation, the contribution of Micro and Small Enterprises (MSEs) to GDP and total industrial production was estimated to be 8.72 percentage and 44.86 percentage respectively during the year 2008-09. The estimated contribution of Micro, Small and Medium Enterprises (MSMEs) in total exports of the country for the year 2007-08 (latest available), based on data obtained from Export Promotion Councils, was 30.80%.
Enterprise-wise data collected on Micro, Small and Medium Enterprises (MSMEs) during the 4th All India Census of MSMEs: 2006-07 indicate that out of 15.64 lakh registered enterprises, entrepreneurs belonging to Other Backward Classes owned 5.99 lakh enterprises (38.28%) while Scheduled Castes and Scheduled Tribes entrepreneurs owned 1.19 lakh (7.6%) and 0.45 lakh (2.87%) enterprises respectively. The socially backward classes of the society together owned 48.75% of the MSMEs. The women entrepreneurs also owned 2.15 lakh enterprises (13.72%). The above data suggests that the MSME growth is inclusive.4

The percentage growth of number of units in India during 1991-92 was 6.86, this came down to 4.62 percentage in 2001-02; again it dipped to 2.08 percentage at the end of 2001-'02. The percentage growth in Kerala in the beginning of the period was 14.85, which came down to 7.55 in 2001-'02. The growth of number of units in India and Kerala shows a decreasing trend.

3.5.5 Promotional Measures for Small Scale Industries.

Having declared faith in the efficiency of small industries as a tool for rapid progress, the Government of India introduced a number of programmes for developing them. Following are some of the specific measures taken:

1. Establishment of the Central Silk Board in 1952
2. Establishment of the All India Handloom Board in 1952
3. Establishment of the All India Handicrafts Board in 1952
4. Establishment of the Khadi & Village Industries Board in 1953
5. Establishment of the Coir Board in 1953
6. Establishment of the Small Scale Industries Board in 1954
7. Establishment of the Directorate of Cottage and Small Scale Industries in almost all the States co-coordinated by the Development Commissioner for Small Industries.

8. Establishment of the National Small Industries Corporation in 1955

9. Establishment of Bamboo Mission and Technology Development Centre in the North East.

**3.5.6 Policy Measures to Help Small Scale Industries**

In view of the importance of small scale industries, the Government continues to lay emphasis on their growth and various measures have been taken to enable them to stand in competition with large and medium scale industries. The process of economic liberalization and market reforms has opened up several possibilities of access to larger markets and stronger and deeper linkages of SMEs with global enterprises. The high growth in this sector stimulates not only policy changes but also makes the sector more competitive in the present global climate. The Government has been focusing on the SMEs ever since Economic Reforms have taken place in the country and has been working as facilitator to bring Indian SMEs at par with global players.5

1. A new Central Act namely. Micro Small and Medium Enterprises Development Act 2006 (MSMED Act 2006) has been enacted to facilitate the growth of this sector in a disciplined manner

2. Policy package for stepping up credit to SMEs – 2005

3. Promotional package for the promotion of MSEs – 2007

4. Skill Development Mission

5. National Commission for Enterprises in the unorganized sector (NCEUS) to identify constraints faced by the unorganized MSE sector
6. National Manufacturing Competitiveness Programme (NMCP) aimed at enhancing the competitiveness of the sector through setting up Mini Tool Rooms, Design Clinics Scheme, Technology and Quality Upgradation, Marketing Support Assistance, cluster approach etc.

7. Rajiv Gandhi Udyami Mithra Yojana

8. Credit Capital Subsidy Scheme for technology upgradation

9. Credit Guarantee Scheme

10. Prime Minister’s Employment Generation Programme (PMEGP) aimed to generate 37 lakhs employment opportunities in the country

11. Reservation of items for exclusive production by small scale industries; 47 items were reserved in 1967. By 1994, it was increased to 836 items. With globalisation, liberalization, financial and other sectoral reforms, the country adopted an outward looking approach and the Government has taken major policy measures for making Indian industry, including its crucial Small Scale Sector, competitive to unleash its growth potential. One of the crucial measures was dereservation of items to be exclusively produced in the Small Scale Sector. With this de-reservation, only 21 items remains in the list.

12. Excise duty, and tax concessions

13. Priority in the disbursement of loans by the financial institutions and interest subsidy in a credit rationing framework

14. Other concessions include import of raw materials and plant and machinery and supply of these materials through Small Industries Corporations and other agencies

15. Direct assistance like consultancy and training

16. Price and purchase preference to products manufactured in small scale enterprises in Government purchases
17. Setting up of Development Commission for Small Scale Industries (DCSSI) and a network of SISIs and their extension centres, National Small Industries Corporation (NSIC), National Research Development Corporation (NRDC) etc for R&D and Technology development.

3.5.7 MSMED Act 2006

Prior to the introduction of MSMED Act 2006, small industrial units were not governed by any specific Act. The activities were controlled by the Ministry of SSI under the Government of India and were looked after by the Development Commissioner, SSI. The rules and regulations were framed with the assistance of the Advisory Board constituted for the purpose.

In view of the greater importance attained by small scale units by way of increased foreign exchange earnings, greater share of employment generation, its role in development of rural areas, Govt. of India felt the need to bring in a comprehensive Act for regulation, development and problem solving and hence the MSMED Act got enacted on 2nd October 2006.

The marked difference in the Act when compared to the earlier rules and regulations is that the service sector is given due importance and instead of industry, the term “enterprises” is substituted. Earlier, it was SSI and SSSBE and now only Micro enterprises, Small scale enterprises, and Medium enterprises.

One important provision is there in the Act for delayed payment to small units from clients. Instead of going to a court of law, now MSMEs can file a complaint before the State Director of Industries for getting its payment from clients who refuse to pay or delay payment.

3.5.8 Small Scale and Cottage Industries under Five Plans

Small scale industries including traditional village industries, small workshops and modern small enterprises have been given an important place in the framework of Indian economic planning for ideological and economic
reasons. The small industries sector has been imbued with a multiplicity of objectives. Important among them are generation of immediate employment opportunities with relatively low investment, promotion of more equitable distribution of national income, effective mobilization of untapped capital and human skills and dispersal of manufacturing activities all over the country leading to growth of villages, small towns and economically lagging regions.

Under the First Five Year Plan [1951 April – 1956 March] the major step taken for the development of village and small industries was the establishment of All India Boards to advice and assist in the formulation of the programmes of development of small scale industries including sericulture and coir. It attempted to indicate some of the problems involved in the development programmes and divided the small industries into three groups. viz, those which exist independently, those integrated with large scale industries and those offering competition to large scale industries. The Second Five year Plan [1956 April – 1961 March] emphasized the role of small and village industries on the following grounds: a) Generation of employment opportunities, b) An equitable distribution of national income, c) Mobilisation of capital, d) Mobilisation of entrepreneurial skills, e) Regional dispersal of industries.

A three tier organization- All India Boards, State Boards of Industries and State Department of Industries was promoted. Programmes for village and small scale industries and problems connected with their implementation were reviewed by the Karve Committee appointed by the Planning Commission in June 1955.

The Third and Fourth Plans [1961-‘66, 1969-‘74] gave importance to the development of small and village industries and were aimed:

a) To promote them as ancillaries of large industries
b) To improve productivity of the workers by providing technical advice, better equipments and credit to them

c) To reduce progressively the role of subsidies, sales rebate and sheltered markets

d) To organize the artisans and craftsmen on co-operative lines

The Fourth Plan [1969-1974] proposed a total outlay of ` 370 crores in the public sector and ` 400 crores from the private sources excluding the outlay for community development and rehabilitation of displaced persons and development of special areas. Thus a total of 800 crores were earmarked for small industries under the Fourth Plan.

The broad strategies of the Fifth Plan [1974-'79] included development of entrepreneurship and provided a package of consultancy services so as to generate maximum opportunities for employment, especially self employment in rural and semi-urban areas. It also aimed at fuller utilization of skills and equipments for improving production techniques. The industrial strategy adopted in the Sixth Five Year Plan [1980-'85] aimed at revitalizing and developing the existing traditional and other small scale industries. The Plan envisaged a total outlay of ` 1,410 crores in the public sector. The Seventh Plan [1985-'90] objectives indicated by the Planning Commission for the small scale sector are:

- Growth and dispersal of industries, improvement in the level of earnings of artisans, creation of avenue for self employment, development of entrepreneurship, improvement in the productivity and quality of goods, expansion of share of village and small industries’ product in the domestic market through standardization and market support, strengthening the programme of ancillarisation to establish improved linkages, government purchase programme etc
The Eighth Plan couldn’t be started in 1990. After two years of Annual Plans, Eighth Plan was finally launched in 1992. The Industrial Policy 1991 was a landmark for small scale industry and the economy as a whole. It paid special thrust on the promotion and strengthening of small scale sector. There was a shift from ‘protection’ to ‘promotion. Under the scheme of Integrated Infrastructure Development Centres (IIDCs), infrastructure facilities were being developed in backward and rural areas.

Ninth Plan (1997-2002) gave more importance to small scale sector with enhanced incentives and financial assistance for hilly areas and North East States. It paid special thrust on technology upgradation, enhanced flow of credit from financial institutions, encouragement for adoption of higher quality parameters and quality consciousness amongst the SSI units. Focus of the Ninth Plan can be described as: "Growth with Social Justice and Equity".

The growth strategy of the Tenth five year Plan (2002-’07) was to ensure rapid growth of those sectors which are most likely to create gainful employment opportunities. Particular attention was paid to a wide range of sectors which had large employment potential. They included sectors such as Khadi and Village Industries, agriculture in its extended sense, construction, tourism, transport, SSI, retailing, IT and communication-enabled services, and a range of other new services which also needed to be promoted through supportive policies. Liberalisation of controls, phasing out the policy of reservation of certain products for SSI, ancillarisation of small scale units etc were the important points of consideration.

Eleventh Plan (2007-2012) approach to the MSME marks a shift from the welfare approach to that of empowerment. The Plan looks at this sector as an engine for sustained and inclusive economic growth and employment. The strategy is two-pronged – it focuses on livelihood and social security. Small-scale and medium enterprises are the forces strengthening the rapid
growth in the economy at large, especially in the employment generating sectors. Special programmes aimed at target groups such as small and micro enterprises, weavers, artisans, craftsmen, etc. will remain important in the Eleventh Plan period.

3.5.9 Small Enterprises in Kerala

The state of Kerala was formed in 1956, by integrating Travancore, Cochin and Malabar, the geographical area of which account only a little over one percentage of the size of India. The state has attracted worldwide acclaim in human development widely referred to as the “Kerala Model.” The state with its high social development indicators has poor industrial growth. Kerala’s social background lacked an entrepreneurial class like Marvadis and Chettiyars. People from Kerala prefer the alternative source of power domination and position by getting into the state services. Thus, academic qualifications which are indispensible to vantage positions in state services became the key target of bourgeoisie community in Kerala. So attention and investment was shifted from industries to educational institutions. When the private sector participation was kept away, public sector alone became the main force to fill the gap in the industrialization of the state.

In the early decades of the twentieth century, industrial growth in Kerala centered mostly on agro-processing industries, beedi, handloom and export oriented plantations, coir and cashew industries, rice mills, tea and coffee processing establishments etc. The revival of weaving industry began with the intervention of the Basel Mission, a German missionary society which undertook a number of economic activities in handicrafts and agriculture in addition to their religious activities. Similarly, the tile industry, about 125 years old was also initiated by the same missionary group. The concentration of industries, (Coir - Coastal belt, Tile- Trichur, Beedi- Kannur, Cashew- Quilon) increasing operating cost and obsolete technology were
viewed as the roots of industrial backwardness. The low wage rate and poor working conditions resulted in the emergence of strong trade unions with political affiliations in these sectors which later resorted to militancy to resolve industrial disputes. This led to interstate wage disparity and relocation of traditional industries to neighboring states, which, in turn, reduced the employment opportunities in the state. Presently, prominent sectors in Kerala are information technology, tourism, agro-based business including food processing, ready-made garments, ayurvedic medicines, mining, marine products, light engineering, biotechnology & rubber based industries.

Kerala's position is 12th in the industrial ranking among the major 16 States in India. It was reported that about 22.5 percentage of the total income of the State came from the secondary sector during 1980-‘81, which was only 17 percentage during 1970-‘71. The industrial sector of Kerala employed 15 percentage of the total workers against the national average of 9 percentage. Most of the industrial and commercial establishments in Kerala are concentrated in the coastal zone. There are about 300 large and medium scale industries and 1,66,000 small industries in the state.

During 2009-10, there has been a pick up in the growth of MSMEs in the State. This is evident from the statistics regarding the number of new enterprises that filed Memorandum, employment growth, value of goods produced and investment compared to the previous year. The number of new enterprises that filed Memorandum during 2009-10 was 9322 where as it was 8421 in 2008-09. Similarly, growth was also reflected in employment, production and investment in the MSME sector. During the year 2009-10, these enterprises made an investment of 73046.34 lakhs providing employment to 60,876 persons.

From the year 1956 onwards Kerala Government has formulated Industrial Policies suitable to the state, at par with the National Industrial
Policy. The general objectives of the Policies include the accelerated rate of industrial growth in the state, creation of massive employment opportunities in the industrial sector, creation of necessary infrastructure facilities for establishing industries etc. In addition, policy objectives at various times included modernization of the traditional sector, revival of sick and closed units, promotion of agro-based industries, emphasis on private participation in infrastructure development, elimination of restrictive practices and development of sunrise industries such as information technology, food processing and biotechnology, maximum value addition within the State for indigenous produce and minerals, provision of a safety net for those affected by industrial restructuring and empowerment of the traditional sector to stand up to global challenges. Among the various policies, the latest one is the Industrial and Commercial Policy 2007.

3.5.10 Industrial & Commercial Policy 2007

The Indian economy is slated to move into an orbit of higher economic growth. Reforms in the banking, agriculture and social sectors and focused investments in the infrastructure sector hold potential for sustaining economic growth. Indian economic upsurge has thrown open global opportunities for business to expand taking advantage of enormous young workforce and capabilities in assimilation of technological advancements. Industrial & Commercial Policy 2007-2011 seek to capture these opportunities, leveraging the strength of the state through creation of an efficient, investor friendly environment supported by coordinated development of infrastructure and sunrise industries.

Though Kerala’s achievement was unique in the socio economic sectors, it couldn’t achieve much in industrial sector. To achieve high and sustainable economic growth, with specific thrust on social objectives, through rapid industrialization and big leap in commercial activities, without
affecting ecology and environment and to create large-scale employment opportunities for the people of Kerala and ensuring them fair wages and to convert Kerala into an investment friendly destination are the vision of the Industrial & Commercial Policy announced by the Government during 2007. The Industrial Policy 2007 was mainly included to:

- Convert Kerala into a favoured destination for manufacturing, agro processing, health services, knowledge-based industries and services
- Strengthen the Public Sector Undertakings
- Make traditional industries competitive by modernization, value addition and skill development
- Promote and support SMEs as ancillaries to large scale industries as well as a self sustaining entity considering its role as a largest employment provider in the State
- Make use of the abundant and highly rich mineral resources of the State to the fullest extent, protecting environment and ecology and restricting the mining activity in the Public Sector
- Generate massive employment in industrial, commercial and service sectors.
- Attract huge capital investment on mutually beneficial terms
- Tap the rich industrial potential of biotechnology

3.5.11 Industrial Policy 2007 & Micro Small & Medium Enterprises

Special importance is given for MSMEs in the Industrial Policy 2007 which reads as follows:

- District Industries Centres will be made effective for enterprise development in MSMEs. Funds from the decentralized plan devolved
to the local self Government institutions will be effectively leveraged to promote micro and small enterprises.

- Government shall focus on nurturing innovative high growth MSMEs with capacity to compete globally on a sustained basis and improve productivity of the MSMEs.
- Government shall create a knowledge based pro enterprise environment that inculcates the appropriate mindset for business, encourages entrepreneurship and innovation and eliminates barriers to organizational growth.
- A system of decentralized production, centralized marketing, centralized designing and centralized quality control will be actively pursued. Priority will be for utilization of unused land of local bodies for setting up MSME.
- Government will consider granting SSI Units price preference, exemption of EMD / Security Deposit and free tender forms.
- Directorate of Industries and Commerce will be revamped so as to become an effective organization for promotion of MSMEs (Micro, Small and Medium Enterprises).
- Joint inspection by all Departments / Agencies on prior notice will be encouraged. Self Regulation and Certification would be implemented in the place Inspector Raj.

3.5.12 Industrial & Commercial Policy 2011 (Draft)\(^6\)

To transform Kerala into a vibrant entrepreneurial society with faster, inclusive and sustainable economic growth in order to achieve global standards in every domain, the Government of Kerala framed the Industrial and Commercial Policy 2011 with the main objective of development of more enterprises by fortifying the skilled Human Capital and promoting investments including domestic as well as foreign in all sectors to entail total
economic development of the State through employment generation and export oriented business. Other objectives include:

- To promote Kerala as prime destination for industrial investments with environmental protection
  - Revamp Kerala into an entrepreneurial State by encouraging private investment in all sectors particularly in Agro Processing, Services & Commerce and new emerging sectors.
  - Mobilize establishment of Micro and Small Enterprises particularly in rural areas to achieve employment generation and utilisation of local resources.

- Create a policy framework to encourage enterprises as against wage employees.
- Create cordial environment for ensuring the utmost value addition of the locally available resources.
- Market Kerala as a competitive investment destination for Foreign and Domestic Investments in services, emerging industrial sectors (Bio-technology & Nano technology) and employment for skilled Human resources within the State.
- Improve infrastructure through Public Private Partnership mode for industrial infrastructure.
- Accelerate industrial clusters in the State.
- Augment Services & Commerce sector to create in-house employment to the skilled and semi skilled manpower in the State.
- Introduce globally accepted standards in Technology, Quality and Management to rejuvenate the Public Sector Enterprises in the State.
Encourage environment friendly practices in enterprise development.

3.5.13 The Industrial Policy on Micro and Small Enterprises 2011 (Draft)

To accelerate the growth of Micro and Small Enterprises in the State, the Govt. will:

- Promote new industrial parks with quality infrastructure like roads, power, water, waste management etc. and to upgrade the infrastructure facilities in existing Development Areas / Development Plots.
- Promotion of new DA / DPs through PPP mode.
- Multi storied industrial estates in all Districts with priority allotment for MSEs.
- Protection from power tariff hikes for new Micro and Small industrial units for a period of three years from commencement of commercial production.
- New Scheme for providing equity assistance to new Units in place of State Investment Subsidy and margin money loan scheme.
- Exemption for payment of EMD and security deposit and price preference to MSME may be continued for a period of 5 years.
- Price preference for SMEs in the State for PSU / LSG procurement will be institutionalized.
- Scheme for the rehabilitation / revival of sick MSMEs.
- An easy exit Scheme for MSMEs will be introduced.
- Negative list of MSMEs will be reviewed and revised.
- Creation of a web based portal to assist entrepreneurs and facilitate speedy and time bound processing of all applications related to MSMEs.
Common branding and promotion of MSME products will be encouraged.

Skilled workers data bank to ensure adequate supply of workers to industrial units.

Women industry will be treated as thrust industry category.

Capacity building programmes for the Departmental Officers to equip them in the emerging scenario.

E-governance and E-commerce will be strengthened to provide better services to entrepreneurs and to increase the efficiency and effectiveness of MSMEs.

Institutional support to MSMEs will be strengthened.

Multi storied industrial estates will be promoted in all Districts With priority allotment for MSEs.

Government will create an online system to assist and facilitate entrepreneurs in speedy and time bound processing of applications and to address their grievances.

### 3.5.14 Some Agencies Supporting MSMEs in Kerala

<table>
<thead>
<tr>
<th>No</th>
<th>Agency</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>District Industries Centre</td>
<td>Nodal Agency in the district for promotion and development of MSME sector</td>
</tr>
<tr>
<td>2</td>
<td>SIDCO</td>
<td>Revitalization of sick units, construction and maintenance of industrial estates</td>
</tr>
<tr>
<td>3</td>
<td>MSMED Institute (SISI)</td>
<td>Technical and Managerial services to existing as well as prospective units. Also imparts training</td>
</tr>
<tr>
<td>4</td>
<td>KITCO</td>
<td>Preparation of project reports, appraisal, conduct of diagnostic studies and EDPs.</td>
</tr>
<tr>
<td>5</td>
<td>Handicrafts Devp. Corpn. (KAIRALI)</td>
<td>Marketing handicrafts</td>
</tr>
<tr>
<td>6</td>
<td>SURABHI</td>
<td>Marketing agency for products of Primary</td>
</tr>
<tr>
<td>No</td>
<td>Agency</td>
<td>Functions</td>
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<tr>
<td>7</td>
<td>Kerala State Bamboo Corpn.</td>
<td>Collection of reeds and mats. Manufacture of laminations and Boards</td>
</tr>
<tr>
<td>8</td>
<td>Kerala Artisans Devp. Corpn.</td>
<td>Provides package of assistance to artisans. Conducts artisans trade fairs</td>
</tr>
<tr>
<td>9</td>
<td>Khadi and Village Industries Board</td>
<td>Promotion of Khadi and Village artisans. Provides loans and grants to approved societies.</td>
</tr>
<tr>
<td>10</td>
<td>Hantex</td>
<td>Development of handloom textiles</td>
</tr>
<tr>
<td>11</td>
<td>HANVEEV</td>
<td>Development of handloom textiles</td>
</tr>
<tr>
<td>12</td>
<td>Institute of Handloom &amp; Textiles Technology (IHTT)</td>
<td>Nodal agency in the state for training, research &amp; development in the Handloom &amp; textile sector and imparts need based training in weaving, dyeing, designing and printing in cotton silk</td>
</tr>
<tr>
<td>13</td>
<td>Coir Board</td>
<td>Development and export of coir products</td>
</tr>
<tr>
<td>14</td>
<td>The Kerala State Coir Corpn. Ltd.(KSCC)</td>
<td>Development of coir industrial sector to serve the scattered small scale manufacturers.</td>
</tr>
<tr>
<td>15</td>
<td>Coconut Development Board</td>
<td>Technology transfer and Market promotion for value added products from coconut</td>
</tr>
<tr>
<td>16</td>
<td>MPEDA</td>
<td>Development, propagation and export of marine products.</td>
</tr>
<tr>
<td>17</td>
<td>Meat Products of India Ltd.(MPI)</td>
<td>Engaged in production and marketing of various meat and meat products derived from pork, beef, chicken, mutton, rabbit and quails.</td>
</tr>
<tr>
<td>18</td>
<td>CMD</td>
<td>Market study, workshops and project analysis</td>
</tr>
<tr>
<td>19</td>
<td>NRDC</td>
<td>Process know how, Turn key projects</td>
</tr>
<tr>
<td>20</td>
<td>NSIC</td>
<td>Machinery hire purchase and marketing support</td>
</tr>
<tr>
<td>21</td>
<td>JRGF</td>
<td>Export Import registration and assistance</td>
</tr>
<tr>
<td>22</td>
<td>KFC</td>
<td>Financial assistance for setting up of industries, transport services, hospitality projects etc</td>
</tr>
<tr>
<td>23</td>
<td>IDBI Bank</td>
<td>Loan assistance</td>
</tr>
<tr>
<td>24</td>
<td>SIDBI</td>
<td>Credit Guarantee Schemes, National Equity Fund</td>
</tr>
</tbody>
</table>
Though the total small scale industrial units registered in Kerala amount 2,06,337, the total number of working units registered in Kerala as on 31st March 2008 is only 1,95,960. Out of the total number of units, 6,834 are promoted by SCs, 1,414 by STs, 41,305 by women and 1,46,407 by others. The total investment is ` 6,00,255 lakh and the number of employment generated is 7,22,860 and value of goods and services purchased during the period is ` 1,25,799 lakhs. The industrial growth in Kerala has been positive during the period between 2000-01 and 2007-08 except in 2001-‘02 when the growth was negative. According to the latest Economic Review brought out by the State Planning Board, the industrial growth recorded (-) 4.44 percentage and (-) 2.88 percentage, respectively, at constant and current prices in 2001-‘02. The average growth during the eight-year period was 4.9 percentage and 8.5 percentage respectively, in constant and current prices.
End note

2. http://www.msmementor.in/MSME_Sector_India.asp, MSMEs in India-An overview)
4. http://www.msmementor.in/MSME_Sector_India.asp, MSMEs in India- An overview