

## CHAPTER II

### ROLE OF SMALL SCALE INDUSTRIES IN INDIAN ECONOMY

#### II.I: CHANGING CONCEPT OF SMALL SCALE INDUSTRIES IN INDIA:

Generally the industrial structure is classified as follows: large scale industries, medium scale industries, and small-scale and cottage industries.

The term small-scale industry covers a wide range of activities. Its definition varies from one country to another. The definition of small-scale industry usually depends upon the socio-economic conditions of the country and the programmes to be adopted. The industries which are considered as small in highly developed countries might be considered as medium or even large in a developing country.

#### THE FIRST ATTEMPT, 1938:

The first attempt to study the problems and prospects of village and small scale industries at the national level was made by National Planning Committee

in 1938. Prof.K.T.Shah, general secretary, K.P.C.,for the first time gave the definition of small- scale industry. The definition suggested by Prof.Shah was

"A small-scale or cottage industry may be defined to be an enterprise or series of operation carried on by a workman skilled in the craft, on his own responsibility, the finished products of which he markets himself. He works in his own house with his own tools and materials and provides his own labour or at most the labour of such members of his family as are able to assist these workers, work mostly by hand labour, and personal skill, with little or no aid from modern power-driven machinery and in accordance with traditional technique. Such supplementary energy as is provided by animal power may be added to economy and efficiency of industry. He works finally for a market in the immediate neighbourhood that is to say, in response to known demand with reference to quality as well as quantity"<sup>4</sup>.

DEFINITION, 1940:

Pandit Jawaharlal Nehru in a note to the National Planning Committee in 1940, adopted a more pragmatic approach. His definitions were "Cottage industries may be those which have:

1. no mechanical power and no hired labour,
2. no mechanical power and hired labour under ten persons;

There may possibly also be

3. no mechanical power but hired labour of ten persons;
4. mechanical power under 10 BHP but no hired labour

Small-scale industry may be 3) and 4) as in cottage industries; and also

5. mechanical power under 10 BHP and hired labour large scale industries will generally be
6. Mechanical power over 10 BHP and hired labour".<sup>2</sup>

DEFINITION, 1948:

According to the Industrial Policy Resolution of 1948 "All industries in handlooms, handicrafts, silk and Khadi and village industries are grouped into the small-scale sector".

DEFINITION, 1955:

The small-scale industries Board at its first meeting held on January 5 and 6, 1955 adopted the first working definition of small-scale industrial unit as follows:

"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".

DEFINITION, 1959:

The Ministry of Commerce and Industry modified the definition on March 18, 1959 so as to include the undertakings which employed less than 50 persons when using power and less than 100 persons when not using power per shift.

DEFINITION, 1960:

The new definition as per the letter of the Ministry of Commerce and Industry on January 4, 1960 was as follows:

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

ANCILLARY INDUSTRY:

As the industries engaged in the production of ancillary items required by large industries needed higher form of mechanisation and called for the use of costly machinery and equipment, relaxation in the capital ceiling upto Rs.10 lakhs was allowed in respect of small industrial units manufacturing components for the following industries:

- i) Machine tools and small tools;
- ii) Electrical machinery and equipments;
- iii) Radios;
- iv) Electrical and mechanical instruments;
- v) Transport industry; including automobiles, railways and shipping,
- vi) Steel, Iron foundry and forge shops,
- vii) Re-rolling and wire drawing industry, and
- viii) Bicycles.

DEFINITION, 1962:

The sub committee of **S**mall-scale **I**ndustries Board recommended the enlargement of the definition to cover the small units with capital assets ranging from Rs.5 lakhs to Rs.10 lakhs for the following reasons.

- i) The differentiation between ancillary and non ancillary industries presented considerable administrative problems.
- ii) Units with capital investment upto Rs.10 lakhs had already been exempted from obtaining licenses under the **I**ndustries Development and Regulation Act; and
- iii) While quality requirements for export markets required the adoption of modern technical processes,

there had been a steady increase in the cost of Machinery and other capital assets.

DEFINITION 1966:

According to the recommendation of the Small-scale Industries Board at its 24th meeting held on July 8, 1966 and as per the letter of the Ministry of Industry dated 31st October, 1966, the new definition of small scale industries is as follows:

"The small scale industries will include all industrial units with a capital investment of not more than Rs.75 Lakhs irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only".

DEFINITION 1977:

The Small scale Industries Board at its 32nd meeting held in November 1974 revised the definition as follows:

i) Small-Scale Industries:-

"Undertakings having investments in fixed assets in plant and machinery not exceeding Rs.10 Lakhs".

ii) Ancillary Industries: -

"Undertakings having investments in fixed assets in plant and machinery not exceeding Rs.15 Lakhs engaged in -

"(a) The manufacture of parts, components, sub-assemblies, toolings or intermediaries, or

(b) The rendering of services, and supplying or rendering or proposing to supply or render 50 percent of their production or the total services, as the case may be,

to other units for the production of other articles;

" provided that no such undertaking shall be a subsidiary of, or owned or controlled by any other undertaking".

The Government of India has accepted the revised definitions recommended by the Board and gave effect to its decision from May 1, 1974.

TINY SECTOR, 1977:

A new sector - the tiny sector was created for the first time in 1977. All industries, with a capital investment of Rs. 1 Lakh in Plant and Machinery and located in rural areas and small towns are included in the tiny sector so that financial institutions and other agencies may give special attention to their rapid development.

DEFINITION, 1980:-

The Government raised the level of investment in tiny units, small scale industries and ancillary industries as under:

- 1) The limit of investment in tiny units has been increased from Rs.1 Lakh to Rs.2 Lakhs;
- 2) The limit of investment in small-scale units has been raised from Rs.10 Lakhs to Rs.20 Lakhs.
- 3) The limit of investment in the ancillary units has been raised from Rs.15 Lakhs to Rs.25 Lakhs.

This new definition is broad based. The present study covers the units coming under this definition.

DEFINITION, 1982:-

In 1982, the definition has been further extended to include service-oriented enterprises/ establishments which are not engaged in purely trading or commercial activities<sup>3</sup>.

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DEFINITIONS OF SMALL-SCALE INDUSTRIES IN OTHER COUNTRIES:

The definitions of small-scale industries in some selected countries are mentioned below:<sup>4</sup>

U.K:

In books on industrial subjects, units employing less than 500 workers are generally referred to as small units.

U.S.A.:-

The manufacturing firm is officially a small business for Government procurement purposes, if it is not dominant in its field of operations and if it has fewer than 500 employees or if it is certified as small by the Small business Administration. For purposes of financial and other assistance, it is classified as small if it employs fewer than 250 employees depending on the size and the standard set for different industries.

JAPAN:-

The Government applies the term small industries to those industries which employ less than 300 persons in the Manufacturing Sector with a capital of less than 50 million yens; and in commercial and professional service sector, with a capital of less than 10 million yen employing less than 50 persons.

GERMANY, SWEDEN, NORWAY, AND DENMARK: -

In these countries there is no official definition of a small-scale industry. Units employing up to 300 workers are considered to be small. In Scandinavian Countries, however units employing 10 to 100 workers are generally considered small-scale units.

ITALY:-

Units employing not more than 500 workers and having a capital investment of not more than 1,500 million lire are considered to be small industries.

THE NETHERLANDS:-

The entrepreneur has to fulfil all the managerial tasks himself in a small-scale industry which generally employs 10 to 100 workers. But there is no clear-cut definition of small scale industry.

SRI LANKA:-

The small industries have been defined as those which are mainly run by power and have a capital investment not exceeding Rs.2,00,000.

EGYPT, ISRAEL AND TURKEY:-

The Report of the UNO (1958) on the development of the manufacturing industry in Egypt, Turkey and Israel refers to all manufacturing establishments employing less than 10 persons as small - scale industries.

II. II. ROLE AND IMPORTANCE OF SMALL-SCALE INDUSTRIES IN INDIAN ECONOMY:-

The importance and significance of village and small industries in Indian economy is evident from the fact that in terms of gross value in 1979-80, the share of the sector was around 49 percent of output in the manufacturing sector and 51 percent in terms of value added. The sector offered employment opportunities to about 236 Lakh persons as against 45 Lakh persons in large and medium sector. Of this the contribution of small-scale industries alone is 67 Lakh persons.

In 1981-82 small industries produced goods and services worth about Rs.32,600 crore and provided employment to about 75 Lakh persons.

Values of exports from small-scale industries during the year 1981-82 was Rs.2,029 crores, which accounted for 26 per cent of the total exports from India.

During the period from 1979-80 to 1981-82 there was an average annual growth of 9.5 percent in production at constant prices and about 5.8 percent growth in employment.

Table 1 explains the performance of small scale industry from 1978-79 to 1981-82.



TABLE-1 PERFORMANCE OF SMALL-SCALE INDUSTRY

(In lakh Nos.)

S1. No.	Item	1978-79	1979-80	1980-81	1981-82
1.	No. of Units	7.34	7.79	8.54	9.61
	i. Registered	3.34	3.66	4.28	5.22
	ii. Unregistered	4.00	4.13	4.26	4.39
2.	Production at current prices (in Rs. Crore)	15.790	21.635*	28.060	32.600
3.	Employment (in Lakh Nos.)	63.8	67.0	71.0	75.0
4.	Exports (in Rs. Crore)	1,069.2	1,226.3	1,519.3	2,029.0

\* Value as per new definition.

Source: Economic Information Bank of India, Vol. III, No. 110, April 4, 1983 and Employment News, 24 December 1983.

PERFORMANCE IN 1982-83:-

The performance of the small-scale sector during 1982-83 is also estimated to be equally impressive with a 10 percent growth in production and about 6 percent growth in employment.

1983-84 BUDGET AND SMALL-SCALE INDUSTRIES:-

The 1983-84 budget has proposed many changes in the excise reliefs for the small scale sector. Under the existing system, 70 specified groups of commodities are eligible to get full exemption upto first clearances of Rs.7.5 Lakhs and a concessional rate of 75 percent of the excise duty payable in excess of Rs.7.5 Lakhs upto Rs.15 Lakhs. The 1983-84 budget proposes to raise the upper limit to Rs.25 lakhs and lower limit of exemption to Rs.5 Lakhs. A number of small-scale industrial units are engaged in the manufacturing of hospital furnitures and the proposed exemption of excise duty on 21 specified articles of hospital furniture will help these small-scale units. So too will the excise proposals on small units producing paper board.

II. III. INDUSTRIAL POLICY GOVERNING SMALL-SCALE INDUSTRIES:

Policies constitute the framework or guidelines for appropriate decisions at different levels. The working of small-scale industries is moulded by a number of policies, which are the base for effective plan development. The need for the development of small-scale, village and Cottage industries has been the objective of the Government since independence.

INDUSTRIAL POLICY RESOLUTION, 1948:-

The Industrial Policy Resolution, 1948, has stressed the importance of small-scale industries in the following words; " Cottage and small industries have a very important role in the national economy, offering as they do scope for individual village or cooperative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods".

KARVE COMMITTEE:-

Soon after the formulation of the First Five Year Plan, a committee was appointed by the planning commission under the chairmanship of Prof.D.N.Karve. The Karve Committee recommended that any development programme for small-scale industry should be decentralised, aim at gradual improvement in technique without reducing employment opportunities, assure marketing through co-operatives and at positive promotional support rather than enforce protection or reservation.

INTERNATIONAL PERSPECTIVE PLANNING TEAM:-

In 1953-54, the Government of India and the Ford Foundation jointly sponsored the International perspective Planning Team. This Team set the following objectives for small-scale and Village Industries:

- (a) to meet a substantial part of the increased demand for consumer goods and simple producer goods;
- (b) to create large scale employment at relatively small capital costs;
- (c) to mobilise unused resources of capital and skills;
- (d) to ensure a more equitable distribution of national income including the spread of industry over different regions of the country; and
- (e) to counteract tendencies towards concentration of economic power by a widening of opportunities for new entrants and for medium and small-scale units.

INDUSTRIAL POLICY RESOLUTION, 1956:-

This policy resolution reiterated the desirable features of the small-industries. In this policy resolution an attempt was made to rephrase industrial policy in the light of the changes that had taken place in the intermediate period of eight years. The objective of the economic policy now was to establish a socialistic pattern of society. The role of small-scale and village industries in the development of Indian Economy was stressed once again. The resolution recognised the importance of locational factors like availability of raw-materials, cheap power, water supply, transport facilities etc.,

ADMINISTRATIVE REFORMS COMMISSION REPORT, 1969:-

The Administrative Reforms Commission recommended the setting up of an autonomous commission, known as small-scale industries commission. It would guide the development of the small scale industries including handlooms and handicrafts. The village industries would be looked after by the Khadi and Village Industries ~~xxxx~~ Commission. It also

suggested an apex financial institution at the centre to cater to the needs of small-scale sector. It further recommended a greater emphasis on technical guidance and consultancy services provided by small industries service institutes. It also suggested the establishment of well-equipped laboratories for testing raw materials, components and for quality inspection. This report also dealt in detail regarding marketing and management training of small entrepreneurs.

INDUSTRIAL POLICY RESOLUTION, 1970:-

This Policy Resolution reiterated the significance of small-scale industries. It emphasised the importance of the development and expansion of cottage and small-scale industries as an essential step towards economic self-reliance.

INDUSTRIAL POLICY, 1977:-

This policy was primarily directed towards removing the distortions of the past, so that the goals of faster economic development can be achieved within a time bound programme.

The main thrust of this policy was an effective promotion of Cottage and Small Industries widely dispersed in rural areas and small towns. The list of industries which would be exclusively reserved for the small-scale sector had been significantly expanded and included more than 504 items against about 180 items reserved for this sector in the past.

Special attention will be given to units in 'Tiny Sector' Viz., those with investment in machinery and equipment upto Rs.1 Lakh and situated in towns and villages with ~~xxx~~ a population of less than 50,000 according to the 1971 census.

INDUSTRIAL POLICY RESOLUTION , 1980:-

This policy Resolution primarily seeks to harmonise the growth in the small-scale sector with that in the large-scale and medium-scale sector.

An important element of the new policy is the raising of the investment limits to the tiny sector from Rs.1 Lakh to Rs.2 Lakhs, for the small-scale sector from Rs.10 Lakhs to Rs.20 Lakhs and for the ancillary sector from Rs.15 lakhs to Rs.25 Lakhs.

The broad objectives of the new policy are:-

- (a) Optimum utilisation of installed capacity;
- (b) Maximising production and achieving higher productivity;
- (c) Higher employment generation;
- (d) Correction of regional imbalances through a preferential development of industrially backward areas;
- (e) Strengthening of the agricultural base by giving a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationships;
- (f) Faster promotion of export-oriented and import substitution industries;
- (g) Promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst the widely spread small but growing units in rural as well as urban areas; and
- (h) Consumer protection against high prices and bad quality.

NEW TWENTY-POINT PROGRAMME, 1982:-

The importance of small-scale sector has been further illustrated by its inclusion in the New 20-Point Programme presented to the nation by Prime Minister Mrs.Indira Gandhi on January 14, 1982. The eighteenth Point lays emphasis on giving handicrafts, handlooms, small and village industries all facilities to grow and to up-date their technology<sup>5</sup>.

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II. IV. SMALL INDUSTRIES IN THE INDIAN PLANS:

The development of small-scale industries has been given priority in successive Five Year Plans in India in view of its advantages in terms of low investment, high potential for employment generation and dispersal of industries in rural and semi-urban areas.

FIRST FIVE YEAR PLAN (1951-56):

In the First Plan a major step taken for promoting small-scale industries was the establishment of All-India Boards and advise and assist in the formulation of the programme of development of small-scale industries, including sericulture and coir. The First Plan divided small industries into three groups, viz., those which existed independently those integrated with and those offering competition to large-scale industries.

During the First Plan Rs.42 Crores were allotted to village and small industries.

SECOND FIVE YEAR PLAN(1956-61).

During the Second Plan steps were taken to strengthen the state departments of industries. A three-tier organisation was developed - the Ministry of Commerce and Industry at the centre. All-India Boards and State Departments of Industries and State Boards of Industries officers were appointed at district and block levels. Coordination committees were setup at the centre and in most of the states.

Rs.187 Crores were allotted to small industries during the second plan.

The important steps undertaken during the second plan were:

- i) Reservation of the production of certain varieties of cloth and certain types of agricultural implements.
- ii) Prohibition of further expansion in certain large-scale industries like vegetable oils, rice-milling, leather footwear, match, etc.,
- iii) Laying down of separate targets of production for small-scale and large-scale sectors of certain industries like bicycles and sewing machines;

- iv) Marketing conditions improved following the intensification of import restrictions;
- v) The number of registered companies with authorised capital of less than Rs.5 Lakhs each engaged in processing and manufacturing increased by 1160 during 1957-61;
- vi) 60 industrial estates were completed; and
- vii) Programme of small-scale industries as a whole provided full-time employment to three Lakh persons.

THIRD FIVE YEAR PLAN (1961-66):-

The third plan had the following objectives for the promotion of village and small-scale industries;-

- i) To improve the productivity of the worker and reduce production costs by placing a relatively greater emphasis on positive forms of assistance, such as improvement in skill, supply of technical advice, better equipment and credit;
- ii) to reduce progressively the role of subsidies, sales rebates and sheltered markets;
- iii) to promote the growth of industries in rural areas and in small towns;
- iv) to promote the development of small-scale industries as ancillaries to large industries; and
- v) to organise artisans and craftsmen on cooperative lines.

The actual expenditure during the Third Plan was estimated at Rs.241 Crores.

ANNUAL PLANS (1966-69):-

Actual expenditure on village and small scale industries during the Annual plans 1966-67, 1967-68 and 1968-69) were estimated at Rs.132 crores.

FOURTH FIVE YEAR PLAN (1969-74):-

The main programme during the Fourth Plan was to entrust the work of administration of credit facilities under the State aid to industries Act, training and Common service facilities, quality, marketing and consolidation of industrial estates programme to the states.

As against the provision of Rs.293 Crores, In the fourth plan, the estimated outlay in the public sector for village and small scale industries worked out to be Rs.251 crores. The total amount of investment in the private sector exceeded the target of Rs.560 crores envisaged in the Fourth Plan.

FIFTH FIVE YEAR PLAN (1974-78):-

The Fifth plan rightly mentions: " A significantly large number of persons already dependent on traditional industries like handloom, sericulture, coir, Khadi and village industries are living below the poverty line \_ \_ \_ . Therefore, the principal objectives of the programme for the development of different industries in the Fifth Plan are to facilitate the attainment of some of the major tasks for the removal of poverty and ~~and~~ inequality in consumption standards of these persons through creation of large-scale opportunities for fuller and additional productive employment and improvement of their skills so as to improve their level of earning" <sup>6</sup> .

The estimated expenditure during 1974-78 on village and small industries aggregated to Rs.388 crores.

SIXTH FIVE YEAR PLAN(1978-83):

The sixth plan prepared by the Government when Janata Party was in power at the centre laid down the following components of the strategy for the development of village and small industries

- (a) to generate opportunities for fuller and full-time employment by (i) revitalising and developing the existing traditional and other small-scale industries and (ii) promoting intensive development of new viable small industries;
- (b) to raise the level of earnings of rural artisans, handlooms weavers, craftsmen, and others employed in these industries.
- (c) to promote the growth of these industries in rural areas and small towns; and



- (d) to reduce progressively the role of subsidies by providing these selectively for credit and development of skills, designs and marketing.

NEW SIXTH FIVE YEAR PLAN (1980-85):

The 1978-83 plan was scrapped and the 1980-85 Sixth plan was introduced. The Sixth Five year plan (1980-85) mentions in a very categorical way;"

"Promotion of village and small scale industries will continue to be an important element in the national development strategy because of its very favourable capital output ratio and high employment intensity".

The Sixth plan lays down the following objectives in this programme:

- (a) improvement in the levels of production and earnings, particularly to artisans, through measures like upgradation of skills and technologies and producer oriented marketing etc,
- (b) creation of additional employment opportunities on a dispersed and decentralised basis;
- (c) Significant contribution to growth in the manufacturing sector through, inter alia, full utilisation of existing capacities;
- (d) establishment of a wider entrepreneurial base through appropriate training and package of incentives;
- (e) creation of viable structure of village and small industries sector so as to progressively reduce the role of subsidies;

(f) expanded efforts in export promotion.

The Sixth plan (1980-85) has allocated a sum of Rs.1780 crores for village and small industries.

TABLE 2: SIXTH PLAN(1980-85) - S.S.I.

Industries	Output		Employment		Exports	
	(Rs. Crores)		(Lakh persons)		(% crores)	
	1979-80	1984-85	1979-80	1984-85	1979-80	1984-85
<b>A. Traditional Industries</b>						
1. Khadi & handloom	1838	2660	72.7	102.4	261	370
2. Village Industries	314	1000	18.2	35.1	-	-
3. Sericulture	131	245	16.0	21.5	49	100
4. Handicrafts	2050	3200	20.3	28.0	835	1315
5. Coir	86	122	5.6	8.0	30	50
Sub-total	4419	7227	132.8	195.0	1175	1835
	(13.2)	(14.7)	(56.3)	(59.8)	(52.8)	(49.8)
<b>B. Modern Small Industries</b>						
6. Small-scale industries	21,635	32,873	67.0	89.0	1050	1850
7. Powerlooms	3,250	4,100	11.00	14.0	-	-
Sub-total	24,885	36,973	78.0	103.0	1050	1850
	(74.2)	(75.1)	(33.1)	(31.6)	(47.2)	(50.2)
<b>C. Others</b>						
	4,206	5,053	25.0	28.0	-	-
	(12.6)	(10.2)	(10.6)	(8.5)		
Total (A+B+C)	33,510	49,235	235.8	326.0	2,225	3,685
Index	100	146.9	100.0	138.2	100.0	165.6
Compound annual growth-rate (Per cent)						
	-	8.2	-	6.7	-	10.6

Note: Figures in brackets are percentages of total.

SOURCE: Compiled from the **Sixth Plan (1980-85)**

PROSPECTS OF SMALL-SCALE INDUSTRIES IN THE SEVENTH FIVE YEAR PLAN (1985-86 to 1990-91)

The seminar on Seventh Five year plan and small scale industries <sup>7</sup> has stressed the following points:

The last census of small scale industries was taken in 1972 and more than ten years have since elapsed. The census covered only registered units. Since then the definition of small unit has also changed. Service industries have also now been included in the definition of small scale industries. FASSI strongly feels that a second comprehensive census of small scale industries should be planned immediately so that data should be available before the start of the seventh plan. The census should also attempt to collect data about unregistered units.

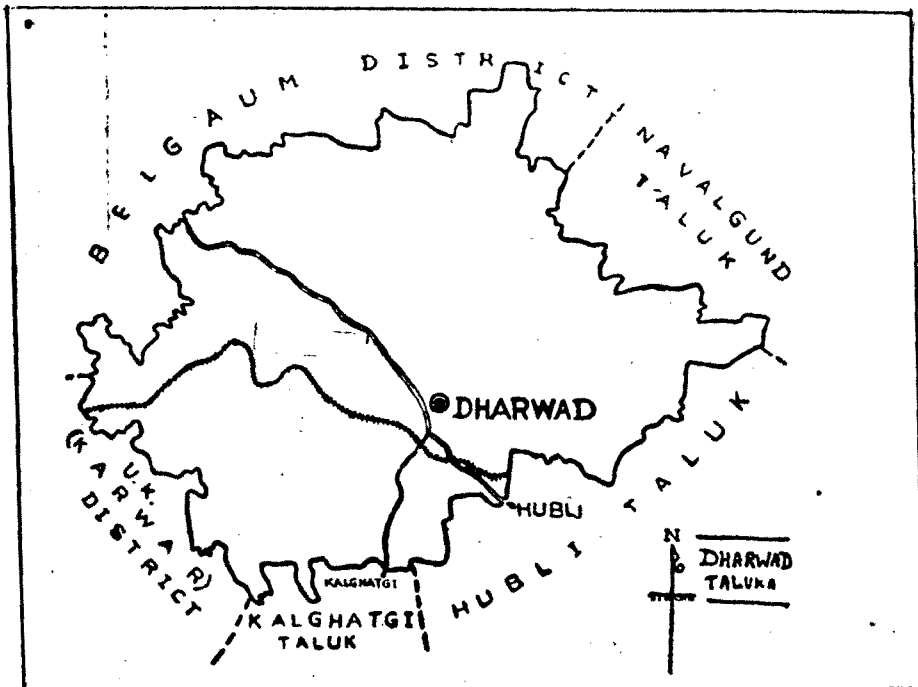
District Industrial Centre will have to be further strengthened. A rapid industrialisation of backward areas is to take place and for this planning commission should not hesitate in sanctioning more funds during the Seventh Five year Plan.

The Planning Commission has recently setup a Working Group on Small-scale industries for suggesting policies and programmes for the promotion and development of small industries for the Seventh Plan with a perspective for ten years.

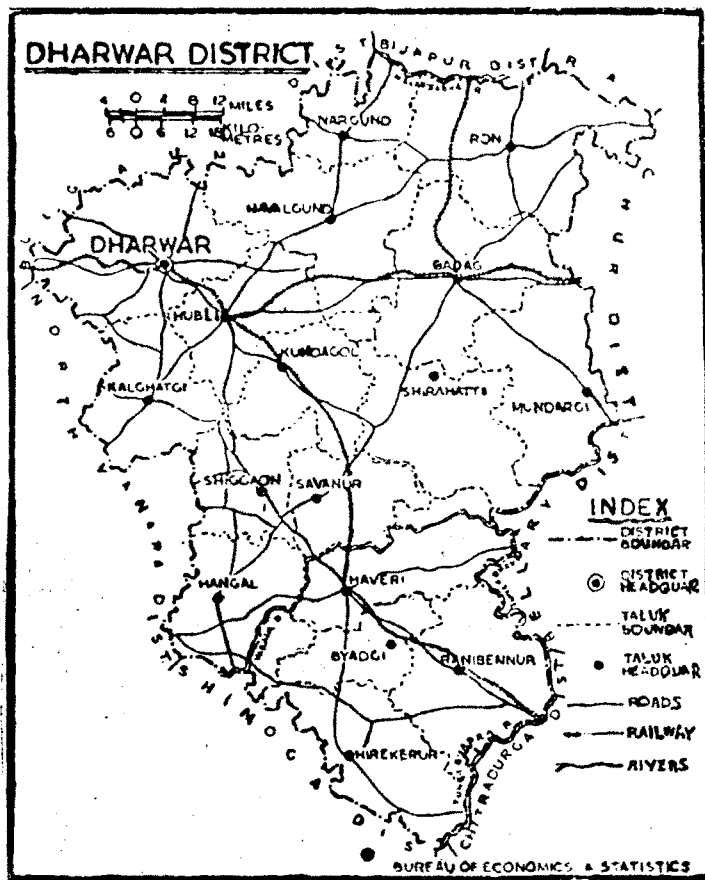
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4. Vasant Desai, Management of Small-scale Industries, Himalaya, P.
5. Yojana, 16-18, February 1982, Vol. XXV, P.3.
6. Planning Commission, Draft Fifth Five Year Plan, 1974-79, Part-II, P.164.
7. 24th Anniversary of FASSI Souvenir, October 1983, PP.107-108.

MAP 2 - DHARWAD TALUKA MAP



MAP 3 DHARWAD DISTRICT MAP



Talukas:- Byadgi, Dharwad, Gadag, Hangal, Haveri, Hirekerur, Hubli, Kalghatgi, Kundgol, Mundargi, Nargund, Navalgund, Ranebennur, Ron, Savanur, Shiggaon and Shirahatti.

Source:- Bureau of Economics and Statistics, Dharwad.