

CHAPTER - TWO
SMALL SCALE INDUSTRIES

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CHAPTER II CONCEPT OF SMALL SCALE INDUSTRIES

2.1 Concept and Definitions

Small scale industries have a vital role in the economic development of country like India. The industrial structure of a country is having a three sectors which are classified as follows-

1. Major Industries
2. Medium Industries
3. Small scale industries

In the major industries large amount of capital is invested for the production, machinery and in the marketing process. In medium industries also, invested large capital in production and machinery. Specialised management and sophisticated technology are the main characteristics of major and medium sector industries.

The small scale industries require the small amount of capital for machinery, capital and other sources of production. The small scale industries are small in size. In case of small scale sector, it requires simple technology limited coverage of market and limited investment in the capital of the business.

The basis of distinction between small scale sector and large scale sector is generally the size, finance, marketing and labour force of the individual industries. The small scale units are mainly located in urban centres. The cottage industries are generally associated with agriculture and provided subsidiary employment in rural and urban area. The small scale industries produce goods with fully or partly machanised equipments while cottage industries involve operations mostly by hand and by the family members.

Fiscal commission 1950 A cottage industry is one which is carried on wholly or partly with the help of family members either as a whole time or part time business. A small scale industries on the other hand is one which is operated mainly with the third labour usually 10 to 50 hands.

India has been a country of cottage and small industries. Right from ancient times India has been hailed as the land of tiny cottage workshops producing a wide assortment of goods of all quality. Indian textiles, metal works and other handicrafts commanded world-wide market long before the industrial revolution in the west. But during the period of foreign rule there was rapid decline the small scale industries due to completion from machine made goods

established factories and mills. Even then small scale industries and village industries have not totally disappeared because of government policies.

The small scale industries in India today covers a big range of traditional and modern small industries including handloom, khadi, power looms, handicrafts, toys, cutlery, sports materials, wood work and metalworks. In India small scale industries were classified as under

- i. Handicrafts
- ii. Village or Cottage industries
- iii. Urban cottage industries
- iv. Small scale industries

Definitions and Evaluation of concept

The concept of small scale industries has undergone resiodic changes. From 1959, the definition of small scale industries has been modified time to time.

Definition - 1955

In order to implement the action plan of small scale sector in the country and it is realising the need for providing governmental assistance for development of small scale industries, the small scale industries board and all India body was giving the first and suitable definition.

An all India board was established in 1954 for overall planning co-ordination and promotion of small scale industries in India. Its first meeting held on 5h & 6th January 1955, the India Board adopted following the first definition of small scale industrial unit as :

"A unit employing less than 50 persons, if using power and less than 100 persons without use of power and with capital assets not exceeding Rs. 5 lakhs."

Evaluation - The industries covers by board and the factories registered under the Industrial Development and regulation Act 1951, were excluded from the above definition. Further the ceiling of Rs. 5 lakhs for capital investment in a small scale units accorded with the minimum limit laid down for licenses.

This definition was included in the government programme for the growth of small scale industries, including financial assistance and extension facilities, to supply of machinery on hire purchase, marketing, technological assistance and providing of factory accommodation in a Industrial Estate.

But in short period, it was felt that the working definition did not serve the purpose, particularly from the point of view of maximum utilisation of equipment and the

capital outlay on 18th March 1959, modified the definition so as to cover the units which employed less than 50 persons with using the power and less than 100 persons without power per shift.

Definition 1960:-

In 1960 the central small scale organisation was felt the need to change the definition of small scale industries. The new definition as per the Ministry of commerce and industry which was made on 4th January 1960. which was as follows:-

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

Evaluation :-

As per the above definition the capital investments include fixed assets, building, machinery and equipment.

The important turning point of this definition in the programme of small scale industries, a large number of workers and to undertake a greater volume of production with the same equipments and capital outlay.

Ancillary Industries:-

The industries engage in the production ancillary items they required a large need of machinisation and called for the use of costly machinery and equipment. It also required a much higher capital than the limit of Rs. 5 lakhs. It was therefore, decided relaxation in capital ceiling up to Rs. 10 lakhs may be allowed in respect of small industries manufacturing components for the following industries:

1. Industrial and Agricultural machinery
2. Machine tools and small tools.
3. Ratio
4. Electrical and Mechanical industries
5. Transport, railway and shipping
6. Iron & steel industries
7. Bicycles
8. Electrical machinery

Definition 1962

The small scale industries board accepted the recommendations of the Ancillary sub committee at its meeting was held on 9th January 1962, regarding to change the list of Ancillary industries eligible for assistance under the small scale industries development programme.

That new list included the following industries.

1. Industrial machinery
2. Agricultural and moving machinery
3. Machine tools
4. Locomotives, ships and aircrafts .
5. Boiler and plants
6. Steam engines
7. Bicycles
8. automobiles
9. Tele-communication
10. Electrical instruments
11. Ratio
12. Air conditioners and refrigerators.

With a view to make the new definition of small scale industries, the board appointed a sub committee in 1962 to view the definition and to give the recommendations for simple definition of small scale sector for operational purpose.

The sub-committee has been study the following questions and give their recommendations.

"To what extent the present definition of Rs. 5 lakhs for general and 10 lakhs for ancillary industries should be charged. The committee may consider to give some helps to

those industries who have lower capital ceiling to be increased from Rs. 5 lakhs."

The report of sub committee was accepted on october 1962 by small scale industrial board and considered by government of India.

Definition - 1966

The modification in the definition of small scale units was recommended by small scale industrial board on 8th July 1966 as per the ministry of letter no. SSI(A) 18(5)/166 dated 31st October 1966 in as follows:-

"Small scale 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."

Evaluation:-

Including the value of capital investment in machinery and plant the original price paid by the owner, irrespective of whether the plant and machinery were new or second hand, would be taken into account.

The need for introducing the latest technology in small scale industries improve the growth and strength and the

increase in the cost of imported machinery the existing definition was changed in 1966.

Definition - 1974

The significant role of the small scale industries overall economic development has been taken place in Indian-five year plans. During the last three decades, over 800000 small scale industries have been established all over the country. The small scale industries have met the demand of a wide range of consumer goods, producer's goods, ancillaries and other components.

However, in view of the steep increase in the prices of capital equipment and replacement cost, they need to change the ceiling of capital investment of small scale sector.

The small scale industrial board defined the new definition in November 1974, which was as follows.

"It was recommended that the ceiling on investment in plant and machinery should be raised from the existing limit of Rs.7.5 lakhs to Rs. 10 lakhs and for ancillary industries from 10 lakhs to Rs.15 lakhs."

More detailed definition of board of small scale industries were as under.

i) Small scale industries

"Undertakings having investments in fixed assets in

plant and machinery not exceeding Rs. 10 lakhs."

ii) Ancillary Industries

"Undertakings having the investments fixed in plant and machinery not exceeding Rs.15 lakhs and engaged in:-

a. The manufacturing of parts, components, sub assemblies or intermediates or

b. The rendering of services and supplying or rendering or proposing to supply or render 50% of their production or total services, as the case may be to other units for the production of other articles."

In Government of India have accepted the revised definition recommended the board and decided to give effect to the decisions with effect from 1st May 1974.

Tiny sectors 1977

The industrial policy resolution of 1977 was directed an effective promotion of the cottage and small industries which were widely dispersed in rural areas and small owners and small towns. A new sector tiny sector was created for the first time in 1977. All the 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 other development agencies may give special attention to their rapid developments. Following were

objectives of the policy to get rapid increase in

- i. Employment
- ii. Productivity
- iii. Income of industrial workers.

Definition 1980

From the 23rd July 1980 as per the new industrial policy resolution, there was further revision of the limits. For small scale units fixed capital investment limit was raised from Rs. 10 lakhs to 20 lakhs and for ancillary units from 15 lakhs to 25 lakhs and limit of tiny sector from Rs. 1 lakhs to Rs. 2 lakhs.

Capital investment for the purpose of this definition means investment in plant and machinery as per the price paid by the owners. Thus the investment in plant, machinery or proposed to invest should not exceed Rs. 20 lakhs for small scale sector and Rs. 25 lakhs in case of ancillary units.

2.2 Evaluation and Development of current concept of small scale industries

1. Meaning & Definition - 1985

The concept of small scale industries was defined first in 1955 by the small scale industries board and also

accepted by the Indian Government. This primary definition was change time to time from the year 1955 as per the government's Industrial policy resolution and as per the requirement of the board for better development of Indian economy and small scale sector.

The current definition of small scale industries was announced in March 1985 by the finance ministry Mr. V.P. Singh. The investment limit was increased in small scale industries and ancillary units from 20 lakhs to Rs.35 lakhs for the small scale industries and from Rs. 25 lakhs to Rs. 45 lakhs for ancillary industries.

Evaluation:-

The industry and trade circles welcome the above increase made in the investment limit. As a matter of fact small scale industries had been required for an increase in the investment limit. An investment of Rs.20 lakhs was not sufficient to buy the plant and machinery. The old definition become out dated and the new limit of Rs. 35 lakhs was more realistic in practice.

It may be noted that small scale industries in our country have been linked to capital investment only. While in other countries they have been related with capital investment or to the number of persons employed in a unit or both.



An industrial activity is different from trading activity in the sense that in an industrial activity, an owner adds value on the production by the new process that manufacturing processing or repairing while trading activities no value is added through the process.

The term small scale industries has wide meaning and covers a wide range of activities. It is important for financial institutions especially banking sector to know the eligible activities for credit guarantee scheme.

Eligible for credit:-

The credit facilities granted to small scale units which are engaged in the following activities are eligible for the guarantee cover under the credit guarantee scheme and for bank loans:

1. Manufacturing
2. Processing
3. Preservation of goods
4. Mining or quarrying
5. Servicing and repairing the machines
6. Customer service units.

Besides, the limits granted for the following purpose shall not be eligible under the credit guarantee scheme.

1. The extraction plant, oil, meal and husk from the cotton.

2. X-ray equipment
3. Photographic equipments.
4. Manufacture of salt
5. Printing press
6. Leather tannery
7. The tobacco factory
8. Processing of cashew
9. Shine crushing
10. Laboratories equipments
11. Traditional industries.

Activities not Eligible:-

The following activities and facilities are not eligible under the credit guarantee scheme for small scale industries.

1. The Hotel industries
2. Road and water transport
3. The generation and distribution of electric power.
4. Manufacture of alcohol
5. New papers and periodicals
6. Cold storage working capital
7. Development of industrial estate.
8. Plantations like tea, coffee, rubber
9. Fishing and selling activities.

2) Classification of small scale sector

The small scale sector has been classified as follows.

- a. Manufacturing industries - producing directly as well , as processing industries.
- b. Service industries - including light repairing shops
- c. Feeder industries- Specialising in particular types of product and services that is casting, welding
- d. Mining & quarrying

C) Ancillaries:-

Producing parts and components for light, cycle, sewing machines, diesel engines, tools, electrical parts and air conditioners.

the industrial policy of 1977 envisaged the following classification of small-sector.

a. cottage and household industries which provided self employment.

b. Tiny sector- having investment in industrial units in plant and machinery up to Rs. 1 lakhs and started at towns.

c. Small scale industries - having a capital investment Rs. 20 lakhs in machinery and in case of Ancillary with fixed capital investment up to Rs. 25 lakhs.

The planning commission of India has classified village

and small scale industries into two broad classes as given below.

A. Tradition Industries

B. Modern small scale industries.

3. Basic objectives of small scale units

Small units in general aim at playing significant role in the socio-economic set up of a country. The basic objectives of small scale industries are as follows.

1. Providing increased employment opportunities on fair rate.
2. The production of a large variety of goods especially consumer goods.
3. Use of modern machinery in unorgensied traditional sector.
4. Facilitating an effective mobilisation or resources of capital and skill.
5. To utilisation of raw material and labour force.
6. Avoiding the problems of unplanned urbanisation of industries.
7. More suitable distribution of the national income and a balanced industrial growth.
8. To increase the foreign exchange through more export programme by small scale industries.
9. To create new cadre of small entrepreneurs and self

employment.

10. Saving in social overheads like education, medical facilities near to people.

11. Small units result in higher national income, hire purchasing power and thus a higher standard of living.

4. Characteristics of small scale industries

The main characteristics of small scale industries are as under:

1. The small industries are organised and started by individual persons. As well as partnership and co-operative firms are started small industries.

2. Small industries are specially localised in rural areas.

3. They required small amount of capital. As per 1985 small industries limit is 35 lakhs and Ancillary unit 45lakhs to be invested in plant and machinery.

4. Small sector involve the use of simple technology.

5. Small scale industries where limited worker are working.

6. Small scale industries can be easily established without the legal formalities.

7. Small scale industries are flexible in nature.

8. In case of small scale sector there is shorter gestation period.

2.3 Present position of small scale industries

The growth of small scale industries over the last three decades has been one of the most significant feature of Indian economy. The Indian national plans for the promotion of small scale industries spring mainly from the fact that it has large employment potential and ensures diffusion of economic power and better equal distribution of national income so as to establishing a socialistic welfare state. As a result, policy maker have laid increasing emphasis on development of small scale sector and giving various concessions to encourage such units in backward rural areas. State and central government has given maximum facilities to the development of this small sector for promotion of production and increase the employment.

At present more than 87 lakhs peoples are employed in 8 lakhs registered small units in the country. It means small scale industries provided and successful to a great extent in creating large employment for many unemployment peoples in our country.

The study of progress of small scale industries in our country shows that there is a steady progress of small sector after independence. In 1950 the registered small units are 16000, in 1961 the went up to 36000 units and in

1978 there were 660000 units in our country in 1980 there were near about 800000 units registered as small scale industries in India. This relative progress of small sector gives us the proper and the significant role of this sector has give the birth to the steady development in India. Table No. 1 shows the performance of small scale industries in India.

Table No. 1

Progress of small scale industries

S.No.	Particular	1972	1978	1980
1.	Number of units (lakhs)	2.6	6.6	8.0
2.	Investment (Rs. crores)	2233	4431	—
3.	Production (Rs. crores)	5510	14000	20930
4.	Employment (lakhs-persons)	35	59	70
5.	Export (Rs. crores)	150	845	1050

Source:-

Report of currency and finance vol.1, page-41 and office of development of the development commissioner (S.S.I.)

Growth:-

As per the above table in gives us the performance of small industries in India. In 1972 there were 260000 units under production of various product which are mainly machine tools, T.V. sets, drugs, electrical and electronic goods, leather goods, plastic goods and soaps etc. The number of units were increased in 1978 up to 660000 small units and as per the report of small industries Development organisation by the end of 1980, there were nearly 8 lakhs units producing over 5000 commodities.

Investment

According to the small scale industries development organisation the investment of Rs.2233 crores in 1972 and in 1978 it goes up to Rs. 4431 crores in 1978. This investment has doubled in the period of six years.

Production

As per the data given by S.S.I. organisation the total production was 4050 crores in 1971 and in 1972 Rs. 5510 crores Rs. 14000 crores in 1978 and Rs. 20930 crores in 1980. This development of production shows a nearly 10.5% growth rate of production in India.

Employment:-

According to small scale industrial organisation the total employment in 1972 were 3500000 peoples and it increased upto 5900000 peoples in 1978. In 1980 there were 7000000 peoples employed in 8 lakhs units. The progress in employment from 1972 to 1980 was increased by 100%.

Export

As per the above table the total export in 1972 in small scale industries was Rs.150 crores. The value of export in 1978 was Rs. 845 crores. There is increase in export from 1972 to 1978 was nearly 5.5 times and in 1980 there was total export was Rs.1050 crores there were increase in export as related to in 1972 to 1980 was nearly 9 times.

2.4 Policies Governing small scale industries in India

the working of small scale industries are going on by number of policies, which are the base for effective plan development. In developed countries industrial development is based on modern technology and research. And developing countries have accepted machinisation as way for developing industrialization. For developing country like India, the growth of small scale industries is of great significance.

The need of development of small scale has been objectives of the government since independence.

Before to discuss the new industrial policy resolution it is proper to discuss the important features of the earlier industrial policy resolution of 1948 and 1956.

Industrial policy resolution 1948

The first industrial policy resolution was defined on 6th April 1948. It was stated:

Cottage and small scale industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods.

The healthy expansion of cottage and small scale industries depends up on a number of factors such as the provision of raw material, cheap power, technical advises organised marketing and their products and when necesar, safeguards against intensive competition by large-scale manufacture is also depends on the education of the workers in the use of the best available techniques.

Industrial policy resolution 1956

the second industrial policy resolution was in 1956. This policy resolution was given after period of 8 years. The features of this resolution was to establish a socialistic pattern of society. The 1948 policy was the basis of India's first five year plan 1951-56. But in 1954 government adopted new pattern of socialistic society as its each ideal. The government revise its industrial policy to get higher production, greater employment, economic equality and dispersal of economic power through small scale sector as per Indian five year plan.

In the industrial policy resolution in 1956 it was stated "it is necessary to increase the growth of rate and to speed up industrialisation particularly development of heavy industries and expand public sector and to build up large and growing co-operative sector. It would increase the more employment and help in raising the standard of living.

Under this policy industries were categorised into three groups

- a. Schedule-A = Industries completely under to ownership of Government. In this group 17 industries were included.
- b. Schedule-B = Under this group 12 industries where mixed under taking. It includes private and public-sectors.

c. Schedule -C= Remaining industries will normally be in private sector. It also gives need of cottage and small scale industries to develop in state.

New Industrial Policy Resolution - 1973

The Government adopted new industrial policy in February 1973. The highlights of the new policy 1973 declaration are as follows.

a. New policy will be based on classification of industries specified in the 1956 policy resolution.

b. The 17 basic industries as per the first schedule mentioned in 1956 policy will continue to be reserved for public sector.

c. The Industrial licensing policy of 1970 will be revised time. Time give facilities and fulfillment of production objectives of fifth plan.

d. The reservation for the small scale sector involving investment in machinery and plant up to Rs. 7.5 lakhs and for ancillary units up to Rs. 10 lakhs will continued.

Industrial Policy Resolution - 1977

The Janata Government which came into power in 1977, announced its industrial policy on 23rd December 1977. The aims and objectives of Industrial policy resolution are as under.

1. Maximisation of output of consumer goods.
2. Maximum use of human and natural resources.
3. Preservation of monopoly in industries.
4. The promotion of cottage and small scale industries widely dispersed in rural and semi rural areas. And creation of Tiny sector which would develop the labour and self employment.
5. To fulfillment of social need of industries will be equitably shared by all the peoples.

Features of the Industrial Policy 1977

Small scale sector:-

The main aim of this policy was to develop the small scale industries. The small scale sector was divided into following three classes.

- i. Cottage and small scale industries providing self employment on wider scale.
- ii. Tiny sector incorporating industries with the investment up to Rs. 1 lakhs in towns with population of less than 50000.
- iii. Small scale industries with and investment upto Rs. 10 lakhs and for ancillary units Rs. 15 lakhs.
- iv. The list of items reserved for small sector was raised from 180 to 807.

Margin money assistance was to be provided for newly designed Tiny sector and small scale industries.

District industrial centres were set-up to serve as focal points small sectors development. They gives financial, technological, marketing and training assistance.

Industrial policy resolution 1980

The new congress government under Mrs. Indiraji Gandhi as prime minister was installed and announced its revised new industrial policy resolution on 23rd July 1980 one of the major objective of this policy was to give financial support to small units for capital investment for long period of time and short term loans for working capital.

Objective of Industrial Policy 1980

1. Optimum utilisation of installed capacity.
2. Maximisation of production and achieving higher productivity.
3. Higher employment generation
4. Correction of regional imbalance by developing industrial activities in rural areas.
5. Faster promotion of export-oriented and import substitution industries.
6. Consumers protection against high prices and bad quality goods and serves.

7. Promoting economic federalism with an equitable spread of investment dispersal of returns amongst widely spread over small but growing units in rural and urban areas.

Strategies adopted to promote small scale sector

The development of small scale industries is within the jurisdiction of state government, but considering their importance in the national economy, central government paid more attention for their development by providing above Industrial Policy Resolutions and giving change in the concept and definition of small scale industries. With the help of policy Resolutions made by Indian Government and various industrial Act and establishing various Financial Institutions for development industries in India. The various provision, facilities and concessions are given by Indian government or by state government. They are mainly as follows.

1. Financial Assistance:-

Small industries need long term, medium and short terms loans. For this purpose financial corporations are set up at state levels. In Maharashtra, Maharashtra state financial corporation has been set up in 1962. As well nationalised banks are provided working capital and Maharashtra state small scale corporation supplies raw materials, and

providing machinery on Hire purchase.

Financial Assistance:

for the development of small scale industries government has given exemption on octroi, sales tax and giving subsidy for capital investment in backward region. And providing loans at low rate of interest.

Industrial facilities:-

It is fact that small scale industries suffer from non-availability of land, water, transport, electricity at cheaper rates. This provisions are made through the M.S.E.B. and Maharashtra Industrial Development Corporation.

Other facilities

1. Various autonomous Board have been established by the government.
2. There is a three tire system of organisation. The ministry of commerce and industries at the centre. All India Boards and state departments and state boards.
3. Establishment of Industrial Estates and Industrial officers wee appointed at the district level and block-level.
4. Facilities of land, water and electricity has been provided in M.I.D.C.

5. Finance has been provide through various financial institutions.

6. Special steps for the organisations of industrial co-operatives as a mean of promoting small industries.

District Industrial Centres.

The concept of district industries centres was enunciated by the Janata government in its industrial policy resolution 1977. There is one agency in each district called as D.I.C. They provided registration of small scale industries, providing guidance raw materials and allotment of plots in M.I.D.C.

As per the survey and study of district industrial centres. There are number of problems of small scale industries will have to face. The problems are as under..

1. Lack of finance and credit
2. Non Availability of raw materials at fare rate in market.
3. Availability of machines and other equipments.
4. Lack of marketing facilities
5. In efficient management
6. Non availability of cheap power
7. Production paten
8. Burden of local taxes
9. Competition from the large scale industries
10. Labor problem.