

CHAPTER : 2

THE OBJECTIVES OF PROMOTION OF SMALL SCALE SECTOR

1. INTRODUCTION

The need for protection of cottage and rural industries from competition of imported goods and products of foreign large scale industries was recognised by the leaders of struggle for freedom before independence. They were also of the opinion that the small scale industries in urban areas also need the same protection.¹ They also recognised that the small scale units based at rural and urban areas had their own problems and they needed some

measures to overcome these difficulties.

So, from 1948 to 1954 some Boards were constituted, like All India Cottage Industries Board, 1948, All India Handloom Board 1952, All India Handicrafts Board, 1952, the small-scale industries Board 1954, Coir Board 1954 etc. These Boards continue to discharge their specific responsibilities.²

2. The objectives of Promotion of Small Scale Sector :

(1) To provide immediate large scale employment opportunities as capital per unit of labour is less (for unemployed and especially for the educated youngmen and displaced persons),

(2) To avoid concentration of production from the view point of ownership and location and method of ensuring more equitable distribution of income.

(3) To provide opportunities for generation of new entrepreneurs,

(4) To mobilize small capital resources, the overall quantum of which was large when seen in a national framework but were not adequate for establishment of large industrial units.

Ref : 1-2 : Small Scale Sector and Big Business, by S.K. Goyal, K.S.Chalapati, Rao, Nagesh Kumar, published by The Corporate Studies Group. The Indian Institute of Public Administration, Indraprastha Estate, Ring Road, New Delhi 110 002, Feb. 1984.

- (5) To restrict the unplanned growth of urban centres which is inevitable if the unemployed start migrating to cities in absence of employment openings in the present place of living.
- (6) To maintain and provide an orientation to industrial manufacturing so that the local raw material get utilised to the maximum extent.
- (7) To promote local self sufficiency at least in consumer goods (and incidentally reducing pressure on transport) and elimination of trader intermediaries, and
- (8) To help to build decentralised pattern of growth.

Each one of the above objectives is a laudable one. But it bears the impress of the early vague ideas about industry and its dynamics. But some of the objectives (like No. 1 and 2) are wise and a number of questionable assumptions seem to be also implied in the statement of objectives (objective No.5). The supporters of the sector in their enthusiasm appear to have treated the sector as an omnibus one (Page No.3-4).

During our struggle for freedom general opinion was in favour of the self-employed persons. It was agreed that these persons were unable to face the competition from the big wage based enterprises hence should be protected.

Some were demanding the total abolition of private property. But the later view was not accepted and it was decided to help the 'small' sector and to control the activities of 'big' ones. But it was also argued that state should not deprive the big to their rights to expand but should help the small and a balance should be maintained.³

3. THE ASSUMPTIONS

The measures undertaken and programmes evolved to support the sector, have been determined by the nature of the perception of the policy makers with regards to the operational problems and handicaps of the small-scale sector. The understanding of the policy makers has been :

(1) Since most of the small-scale units are organized on proprietary or partnership basis they do not have easy access to industrial sources of finance.

(2) Due to capital scarcity the units end up in buying cheap and sub-quality machines which are difficult to maintain due to non-standardization.

(3) As the units are small in size their requirements of raw materials are of limited quantities. Consequently, the raw materials costs work out to be high and the quality of a doubtful nature.

(4) These units can not take up advertisements or organise sales directly to the consumers. This makes it obligatory on them to depend on intermediaries and traders.

(5) As many of the small scale entrepreneurs are young & new to the manufacturing line they would not have adequate market know-how or the necessary knowledge of the various kinds of state support available to them.

(6) With limited resources small scale units can not afford to install quality testing equipment or afford to pay high rents for land and buildings in urban centres. This was particularly so far to the new entrepreneurs.

(7) The traditional techniques of production need regular up gradation. But this cannot be easily done by entrepreneurs with limited means, and

(8) The large scale manufacturing units can indulge in a variety of unhealthy and predatory practices to check the growth of the small-scale units.

The under current of the 'assistance strategy' is that the small and the big have to co-exist, preferably in close co-ordination and co-operation with each other.⁴

4. FORMS OF STATE SUPPORT

To provide an overview of the different forms of state assistance one can group them under the following heads :

(1) Fiscal Concessions : Small-Scale units receive fiscal incentives in the form of complete or partial exemption from excise duties. For instance, small scale units operating in industries like footwear, tooth paste, playing cards, paints and various varnishes etc. get complete exemption from excise duties. Similarly, differential rates of excise duties apply to industries like wires, cables and paper mills in the small scale sector.

(2) Financial Assistance : As a policy, public sector financial institutions and banks provide finance at concessional terms. State Financial Corporations, various commercial Banks, the Industrial Development Bank of India etc. work in this field.

(3) Preferential Government Purchases : As a compulsion various Government Departments purchase their requirements from S.S.units. At the end of 1981 there were 384 items for which purchases were to be made only from this sector. In addition to these there are 11 and 15 items in whose case the DGS AND D has to make purchases to the extent of 75 and 50% respectively of its requirements from S.S.units.

(4) Infrastructural facilities :

(5) Reservation of Industries : Since the Third Plan new items are reserved for this sector. At present the list contains more than 837 items.

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(6) ~~Exemption~~ from Certain Statutory provisions : S.S. Units have been exempted from the provisions of industrial licensing under the IDRA 1951. Additionally, the provisions of section 58 A of the Companies Act 1956 are also made in applicable to them. Companies falling under the category of small scale industrial units engaged in the manufacture of a number of products have been exempted from the provisions of the Cost Accounting Records Rules 1977.⁵

5. DEFINITIONS OF SMALL SCALE INDUSTRY

(1) As per the First Five Year Plan : " It is customary to refer to industries which are not required to be registered under the factory Act as cottage and small-scale industries. There is no accepted line of distinction between cottage and small scale industries and different definitions are adopted according to the object in view. The distinction frequently made between establishments which employ power and those which do not become less useful as electricity becomes more generally available. The number of workers employed in an establishment has only a limited value as a criterion for distinguishing large-scale and small scale establishments. In addition to the rest at numbers employed and the use of power, a further test may be whether a unit which may otherwise be regarded as small is owned by the worker himself or by a co-operative group.⁶

Ref : 5 - Page No. 9 and 10.

Ref : 6 - INDIA, Planning Commission, The First Five Year Plan, New Delhi, P.325 (Page No.13).

(2) The First Official Criteria : This was in terms of the size of the gross investment in (a) Land, (b) Building, (c) Plant and Machinery, and (d) the strength of the labour force. A unit having an overall investment of Rs. 5 lakhs and employing less than 50 persons, when using power and less than 100 persons when not using power, was the one that qualified to be treated as a small scale unit.⁷

(3) The Revisions of Criteria : From the first five year plan to the declaration of the Statement on Industrial Policy 1980 the criteria for small scale industries was revised for seven times. The revisions have been on the following counts. viz (1) an upward revision of ceiling (from Rs. 5 lakhs to Rs.20 lakhs) (ii) a reduction in the items for which the investment should be taken note of for purposes of the ceiling, (iii) inclusion of a new category at small scale units (Namely, ancillaries) which qualify for small scale policy concessions but has a higher ceiling, and (iv) the criteria being wholly linked to the money value of the assets by exclusion of references to the size of labour force, location, size of turnover, character of the entrepreneur, or the nature of the production basket.⁸

6) The Organisational form : During the earlier years when the policy for promotion of the small scale sector was evolved it was believed that the sector would mainly consist of

partnership and proprietary undertakings. But for various reasons entrepreneurs are opting for corporate form of organisation. There are economic advantages in the new form and the managements can have far more flexibility of operation with reduced risks. A corporate entity is different from the individuals who may own or control it. Under the situation it is necessary to ask if the small scale sector should remain open to the organised corporate sector of the Indian industry or should some alternative organisational form promoted ?

7) The Position of Small Scale Industry :

- (1) The Small scale sector has been treated as an omnibus to achieve a number of divergent objectives.
- (2) The structure of state assistance to the small scale sector has become so complex that to take even a partial advantage of the assistance one has to depend on expert advice.
- (3) The direct and indirect forms of the state assistance accorded to the small scale sector in India amount to a significant support to the sector.
- (4) Each type of assistance and protection measures attracts a different group of entrepreneurs.
- (5) The criteria for small scale units have been revised, repeatedly.
- (6) The official approach that 'original price paid by the owner' should be taken as the basis for deciding the size of

investment in plant and machinery has a number of operational problems.

(7) The optimal size of investment in plant and machinery of an enterprise is determined by the nature of industry, ~~technology~~ technology employed and location at the unit.

(8) The distribution of small scale units in India is a highly skewed one very few units are in the higher ranges of investment.

(9) It appears necessary to enquire into the pattern of assistance sharing in the small scale sector and how the upward revisions in the investment criteria have altered the direction and flow of the benefits.

(10) The Small Scale Sector of today is not confined to proprietary and partnership firms.

(11) If one goes by the size of operations and the affluence, a number of companies qualifying for official patronage as small scale units hardly differ from the large scale sector companies.

(12) If some of the small scale units grow beyond the permissible limit there should be a mechanism for automatic de-registration etc.⁹

Ref : Small Scale Sector and Big Business by S.K. Goyal, K.S.Chalapathi Rao, Nagesh Kumar Published by The Corporate Studies Group, the Indian Institute of Public Administration, Indraprastha Estate Ring Road, New Delhi 110002, February 1984.



INDUSTRIAL POLICY RESOLUTIONS

SMALL SCALE INDUSTRIAL UNITS AND FACILITIES PROVIDED ¹

In the I.P.Rs of 1948 and 56, the small scale sector has been given a special role for creating additional employment opportunities with low capital investment.

The following national organisations were set up to help this sector.

1. Small Industries Development Organisation.
- to provide technical consultancy.
2. Small Industry Extension Training - at Hydrabad
- For training personnel connected with the development of small industries.
3. National Small Industries Corporation.
- for undertaking commercial operations in aid of the small units.

The significant gains of these efforts can be summarised as follows :

1. Number of registered units one lakhs 1965, 5 lakh 1975
2. Production Rs. 25,000 million 1965 Rs. 30,000/- million in 1978.
3. Total exports 9.6% in 1971 17% in 1977 and 41% in 1983.

" A Project in the small-scale sector with an investment of Rs. 1 million normally provides employment to 173 persons while the same number of employees in the large - scale sector would require an investment of Rs. 5.31 million.²

Now a days round of 5000 various products are produced by this sector from simple items to television sets, drugs and chemicals etc.

" So wide-ranging has been the growth of the small-scale sector that government have adopted a policy of reserving items for exclusive production in the small scale sector, which today number more than 800."³

2) POLICY SUPPORT AND ASSISTANCE PROGRAMMES :

The basic approach towards development of small industries as outlined in industrial policy statements and national plans can be summarised as :

- (a) to create immediate employment opportunities on a massive scale at a relatively small cost.
- (b) to meet a substantial part of the increased demand for consumer goods and simple producer goods.
- (c) to facilitate the mobilisation of resources of capital and skill which may otherwise remain un-utilised in rural areas.

- (d) to help in raising incomes and standards of living of a large number of artisans, craftsmen and entrepreneurs.
- (e) to make small industries export-oriented and help export promotion, and
- (f) to remove regional disparities through a deliberate policy of encouraging growth in villages and small towns.⁴

The policy measures adopted by the five year plans for supporting the small industries include reservation of products for exclusive manufacture in the small scale sector, reservation of items for exclusive purchase from the small - scale sector, encouragement of the growth of ancillaries, special incentives for setting up industries in backward and rural areas, liberalisation of terms and conditions of financial assistance from commercial banks and other financial agencies, special facilities for import of raw materials and components, supply of imported and indigenous machinery of hire-purchase and rental basis, and so on.⁵

Government help this sector for the speedy development at all the stages. The institutes like the small Industries Development Organisation, National Small Industries Corporation, Tool Rooms etc. The entrepreneurs are provided annual advice on technical, economic, managerial and general matters. These services are outlined briefly in the next few paragraphs.

(a) TECHNICAL SERVICES :

These include industrial extension services on improved technical processes, guidance in production, planning, selection of machinery, use of modern machines and processes, preparation of factory lay outs and designs, material handling and so on. Common facilities services provided through workshops and laboratories attached to the institutes and extension centres include a tool room, machine shops, electro plating etc. Model schemes, plant guides, blue prints etc. are also supplied at a nominal cost of the entrepreneurs.

(b) MARKETING SERVICES :

These include provision of market intelligence for internal and external markets, setting up of sub-contracting exchanges and trade centres, encouragement to small entrepreneurs to participate in government stores purchase programmes, development of ancillaries, organisation of exhibitions, trade fairs, sponsoring of trade delegations and so forth.

(c) ECONOMIC SERVICES :

These include extensive economic information services, industrial potential surveys, industry prospect sheets, feasibility studies, collection, maintenance and dissemination of statistical information.

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(d) MANAGERIAL SERVICES

These are aimed at improving the competitive strength of small enterprises through provisions of problem-oriented consultancy, detailed inplant studies and general consultancy in industrial management in areas like financial management, costing and production management.

(e) TRADING SERVICES

Special training programmes are organised in the various technical and management disciplines. Besides the Small Industry Training Institute, the Central Institute of Tool Design, Central Tool Rooms, the Institute for Design of Electrical Measuring Instruments, and the prototype development and training centres cater to the technical, managerial and other training requirements of small entrepreneurs, officers of the SIDO, field level officers, banks and financial institutions etc.

3. INDUSTRIAL ESTATES

The main problem of many entrepreneurs was not the capital but the proper place for their units. They were unknown to the true requirements for their units. They had many problems in building up a unit at a particular place. As small industry is a free sector many units were opened in big cities and metropolitan towns where facilities were available. This created a wide range of problems including

low productivity, absence of facilities for expansion, over crowding, unhealthy conditions of the work and attendant social problems.⁶

So the Industrial Estate programme was launched towards the close of the first five year plan in 1955 to overcome the above mentioned, difficulties and to achieve decentralisation in this field. The other objectives were to help in the growth of ancillary industries in the townships surrounding major industrial undertakings, both in the public and private sectors, and enabling small-scale industries to shift from congested areas to estate premises with a view to increasing their productivity.

1. THE FEATURES OF THIS PROGRAMME

- (a) to provide accomodation of suitable sites with all necessities like water and electricity supply transport, banks etc.
- (b) to bring a number of units together and thereby facilitate the establishment of common service centres, introduction of modern techniques, collective purchase of raw material and sale of finished goods etc.
- (c) to enable the enterprises to avail of the goods and services of each other, so as to make them complementary and interdependent.

The need of establishment of small scale industries in

backward and rural areas was soon been noticed and accordingly, in the late sixties, the main thrust of the programme was shifted to setting up industrial estates in backward districts, small towns and rural areas. Along with this to integrate the programme with schemes of urban development by which suitable areas near towns were taken up for providing the necessary infrastructure on which the entrepreneur could put up buildings of their own according to approved type designs.

The role of Central Government is mainly that of laying down policies for the guidance of the state governments and earmaking funds for implementation and monitoring of the programme. Rest all is the responsibility of the State Govt. many states have come forth to implement this programme. But the objectives of these states differ as per their local economic and other conditions. For example Tamil Nadu and Andhra Pradesh implemented this programme to remove the unemployment, on the other hand the state of Maharashtra is more interested in diverting industries from congested areas like Bombay and Poona.

2. OUTLAYS

The total expenditure on this programme till the end of Fifth plan (i.e. March 1978), amounted to Rs. 770 million, In the Draft Sixth Five year plan 1978-83, an outlay of Rs. 450 million is envisaged on this programme in addition to the investments expected to be forth coming from instituti-

onal sources. More recently the Industrial Development Bank of India have been made some precious provisions to help this programme. Other new features of the programme.

3. FACILITIES IN INDUSTRIAL ESTATES

The facilities provided to the entrepreneurs include built-in factory sheds, power and water facilities, roads, godowns, as well as common facility services, workshops and so on. Other facilities include subsidy on rent for factory accomodation, allotment of sheds on hire purchase basis as well as outright sale, concessional charges for supply of water and power, exemption from payment of octroi duty on building material, transport subsidy, exemption from sales tax for certain categories of industries for a stipulated period of time, financial assistance to small scale units in the non-conforming areas for shifting to the industrial estates or areas located in the designated areas and so on. These facilities are exclusive of general facilities available to small scale industries as a whole.

4. TYPES OF INDUSTRIAL ESTATES

In the context of the local requirements, various types of industrial estates have been developed. These are :

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(a) GENERAL PURPOSE OR COMPOSITE INDUSTRIAL ESTATE

The object of this type is to develop and attract all types of small industries except the polluting ones. Depending on the activity, common facility services, tool rooms and so on are installed in the estate. The bulk of the industrial estates in India belong to this category.

(b) ANCILLARY

These are meant for small scale (and medium sized) units manufacturing parts and components which are required by large industrial units on a sub-contracting basis. These are located generally in proximity to the parent unit to facilitate technical supervision, assistance, transport, and so on.

(c) FUNCTIONAL

These estates provide factory accommodation to industrial enterprises belonging to the same product group. Such estates have been set up for leather goods, electronics, agro industries plastic goods, and so on.

(d) FLATTED

Multi storeyed construction of factory building is the feature of flatted estates. This type is primarily meant for industrially developed cities where congestion is great and land costs are high. However, according to the policy statement of 1977 location of new industries (even small) is

discouraged in towns with populations of 500,000 or more.

(e) SPECIAL PURPOSE

These are set up for particular groups of entrepreneurs such as technically qualified persons or artisans and craftsmen. The salient feature of the scheme is that suitable schemes for jobbing, servicing and production are prepared and the entrepreneurs are selected after scrutiny. Certain specialised services and active assistance are provided to them.

(f) RURAL

These are generally located in rural areas and are meant to cater to entrepreneurs in the rural areas. Kerala has experimented with a massive 'Mini I.E.' programme of setting up such facilities in every panchayat out of more than 500 industrial estates set up in the country, nearly 200 fall in this category.

5. SOME STATISTICS

By the end of March 1975, 656 industrial estates were sponsored of which 83 were under construction, 104 were completed but had not started functioning, while 469 were functioning. The progress of the programme would be evident from the following table.

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	1961	1970	1975	1979
<u>INDUSTRIAL ESTATES</u>				
Sponsored	120	519	656	
Completed	75	418	573	
Functioning	67	327	469	596
<u>INDUSTRIAL SHEDS</u>				
Completed	2387	9678	13580	16760
Alloted	1805	8442	12277	15872
Occupied	1731	7585	11375	15338
Functioning	1127	6000	9783	
<u>INDUSTRIAL PLOTS</u>				
Developed			1139	
Alloted			7853	
Occupied			6166	
<u>INDUSTRIAL UNITS</u>				
Functioning in sheds & plots	N.A.	5442	12376	14251
Employment*	13338	103675	185429	220629
Production*	143	1480	5001	5787
*Rs. million				

Production and employment relate to 87 per cent units in 1970 and 64 per cent in 1975.

As per the All India census of small scale industries 5% of the total number of units covered and taken up for tabulation were located in industrial estates the and their contribution to total production was of 12 per cent. Not only this but as per the study conducted by the R.B.I.

in 1973 we learn that 81 per cent of the units in the industrial estates were new. The achievements of the programme in dispersal of small scale industries to semi urban rural and backward areas, can be seen from the following table.

Category	Number of Estate			Total
	Function- ing.	Non fun- ctioning	Under con- struction	
Urban	231	32	43	306
Semi-urban	135	14	12	161
Rural	103	58	28	189
Total	469	104	83	656

It has been observed in 1975 that out of 104 industrial estates not functioning, though completed, about 69.2 per cent are located in the semi urban and rural areas together. The number of sheds occupied and working in the industrial estates is also less in semi urban and rural areas than in urban areas. The lack of entrepreneurs, skilled personnel and general economic development of the area are some causes for this less encouraging performance.

So in order to ensure fuller utilisation of sheds, the State Government had been advised by the Ministry of Industry from time to time to provide essential facilities to entrepreneurs. This programme is also reviewed constantly in the meetings of the advisory committee attached with the Small

Industries service Institute, and periodical meetings of the State director of industries and at the time of the annual plan discussions.

6. LESSONS FOR THE FUTURE

A few lessons for the future can be drawn, which are mentioned below :

1. Industrial estates have to be properly co-ordinated with the broader development programmes.
 2. They should be planned with a view to developing them into focal points of healthier industrial growth in an area rather than as a cluster of a merely inward looking group of production units.
 3. Location is to be decided only on techno-economic consideration and while planning, a uniform pattern need not to be followed.
 4. In backward and rural areas, greater efforts would have to be made to stimulate local entrepreneurship.
 5. The entrepreneurs should be properly helped in selection of products, in marketing and so on.
 6. There is need for close and active involvement of local leadership and enterprise.
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