

# CHAPTER I

## **CHAPTER - I**

### **INTRODUCTION DEFINITION AND SIGNIFICANCE OF SMALL SCALE INDUSTRIES**

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## **CHAPTER - I**

# **INTRODUCTION, DEFINITION AND SIGNIFICANCE OF SMALL SCALE INDUSTRIES**

### **I.1 INTRODUCTION**

The Small Scale Industries have a place of pride in our Indian economy. It has a high potential among others for generating employment dispersal to semi urban and rural areas, promoting entrepreneurship and earning foreign exchange.

In the Industrial Policy Resolution of 1948 and 1956; the small scale sector was given special role for creating employment with low capital investment.

### **I.2 DEFINITION**

The term "Small Scale Industries" has been defined in three ways, the conventional definition includes cottage and handicraft industries which employ traditional labour intensive method to provide traditional products, largely in the village households.

The operational definition for policy purposes includes, "All those undertakings having an investment in Fixed assets

in plant and machinery whether held on ownership terms or by lease or by hire purchase, not exceeding Rs. 60 lakh."<sup>1</sup>

The Government has changed the definitions from time to time as shown in the Table No. I.1

**Table No.I.1**  
**Small Scale Insutry - Definitional Changins**

Period	SSI	Ancillary	Employment Criterion
1955	Investment in fixed capital upto Rs. 0.5 million (US \$ 105000)	Investment in fixed capital upto Rs. 0.5 million (US \$ 105000)	Upto 50 workers if using power and upto 100 workers if not using power
1960	Investment in Plant and Machinery upto Rs. 0.5 million (Original value) (US \$ 105000)	Investment in Plant and Machinery upto Rs. 0.5 million (Original value) (US \$ 105000)	Employment criterion dropped.
1966	Rs. 0.75 million ( US \$ 118000)	Rs. 1 million ( US \$ 157000)	-
1975	Rs. 1 million ( US \$ 157000)	Rs. 1.5 million (US \$ 179000)	-
1980	Rs. 2 million (US \$ 253000)	Rs. 2.5 million (US \$ 316000)	-
1985	Rs. 3.5 million (US \$ 286000)	Rs. 4.5 million (US \$ 368000)	-
1990	Rs. 6 million (US \$ 334000)	Rs. 7.5 million (US \$ 418000)	-
1997	Rs. 30 million (US \$ 836000)	Rs. 30 million (US \$ 836000)	-

Converted into US dollars at the official exchange rate of the respective years.

Source DCSSI (1989), DCSSI (1996), Government of India (1997)

The data shows that, the investment limit for both SSI and ancillary units has been revised from time to time. This has been justified on the grounds of inflation and modernisation of SSI units. Only units which come under the category of small scale industry, as per the government definition are eligible for official

assistance, incentives and concessions. Thus the definition of SSI is fundamental for the protection and promotion of small industry in India.<sup>2</sup>

Before we proceed to discuss the significance of SSIs in Indian Economy, it is necessary to define the various kinds of the industries.

### **1. COTTAGE INDUSTRIES**

A 'Cottage' industry may be roughly defined as an industry which is carried on by members of a family or household and produces traditional commodities with the aid of hand driven equipment and techniques.

### **2. SMALL INDUSTRIES**

The small industries are one which are carried on by power, employs not more than 'Nine' hired workers and if carried on without power the number of employees is not more than 'Nineteen' workers.

All industries other than cottage and small scale industries may be defined as capital intensive or large industries. In India, the Small Scale Industry is defined in terms of investment in plant and machinery and covers mainly manufacturing sector and the industry related service sector. Any unit with investment in plant

and machinery upto Rs. 60 lakh is considered small scale units, investment upto Rs. 75 lakh in plant and machinery is permissible. For tiny units, small services and business enterprises and women enterprises the limit is Rs. 5 lakh. A small units in India can not be owned, controlled, or be a subsidiary of another industrial undertakings.

In UK the main criterion for defining small business is employment and not investment in plant and machinery. Units having less than 10 employees are termed micro enterprises, 10 to 50 are small business and 50 to 500 are medium enterprises and above 500 employees considered as large enterprises.

### **I.3 SIGNIFICANCE OF S. S. I.s**

According to James Manalel, "Small is always beautiful."

The reason behind the special place given to small scale industries in public policy is the special advantages they are believed to posses.

The role of SSIs in economic development has been highlighted by the researchers, national policy makers and international development agencies since past four five decades.

The various advantages of SSIs during these debates are briefly examined here.

- A) Ever since the launching of ILO's "World Employment Programme" (WEP), concern for employment got linked to the advocacy for SSI which believed to offer more employment for any given investment.
- B) The Reserve Bank of India's Survey (RBI, 1979) of SSI units assisted by commercial banks revealed that factor proportions and productivities behaved as expected and the results were in favour of SSIs units.
- C) The second All India Census of Registered SSI units shows that the factor productivities were higher for the factory sector units within SSI sector than the non factory SSI units. However, the employment per capital investment was higher for SSI units than the non factory units (DCSSI 1992).
- D) While the Annual Survey of Industries (ASI) uses employment criteria for size classification the Government's official definition of SSI uses investment in plant and machinery as the criteria. There is evidence that when size is measured in terms of capital employed as revealed by All India Census of Small Scale Industries and RBI Survey 1979, the results are in favour of the Small Scale Industries.

However, when size is measured in terms of employment, the medium size (50-200 workers), some recent studies on employment potential and productivity in the small scale sector using ASI data, also confirm that SSI units have higher labour intensity and lower capital intensity.

- E) Under the Mahalanobis Model, it was expected that the additional demand for consumer goods generated in the economy, arising from the investment made in heavy industries, would be met effectively by the SSI sector at relatively small capital investment.<sup>3</sup>

#### **I.4 MAHATMA GANDHI AND SMALL SCALE INDUSTRIES**

Mahatma Gandhi always advocated the use and encouragement of Cottage and Small Scale Industries in the country.

In the circumstances of the country like ours which had such vast manpower and comparatively little land and other natural resources, he argued, it would only be cottage industry which required little or nominal capital that could provide the needed employment and otherwise answer our needs best, not capital intensive mechanised industry based on the western



model of economic growth which would only add to the unemployment and concentrate wealth in the hands of a few.

However, Gandhiji did not aim at the eradication of all machinery, he only advocated its limitation when he was asked if he was against all machinery, Gandhiji said, "My answer is emphatically "No". But I am against its indiscriminate multiplication. I refuse to be dazzled by the seeming triumph of machinery. But simple tools and instruments and such machinery as lightens the burden of million of cottages; I would welcome.<sup>4</sup> The same view was expressed by the Industrial Policy of 1956.

The Industrial Policy Resolution of 1956 which states,

"They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country."<sup>5</sup>

Thus small scale industries played a significant role in Indian economy, however, infact, they are facing numerous major problems. Government, Central and States, have taken

a number of measures to solve the age old problems of these industries, such as lack of credit facilities, out molded methods and techniques, absence of the supply of raw materials and competition from large units. The Union Government has setup a number of agencies, to foster the development of village and small scale industries and credit facilities are made available to these industries through a number of institutions.

### **I.5 OBJECTIVES OF THE STUDY**

The objectives of the study are as follows :

- I. To review the policies for Small Scale Sector in India.
- II. To study the credit facilities available for SSIs under Industrial Policy.
- III. To review the financial support given to SSIs in Five Year Plans.
- IV. To study the various facilities, schemes which are provided by the Government for development of Small Scale Industries in India.

### **I.6 PERIOD OF STUDY**

The period covered for the present study is from 1947 to 1999. The policies passed by the Government since 1948 to 1999 have been highlighted.

## **I.7 RESEARCH METHODOLOGY**

For the proposed study we have used secondary sources for the data collection. The study is based only on literature sources such as books, journals, reports and available written sources in Shivaji University.

## **I.8 CHAPTER SCHEME OF THE STUDY**

The chapter scheme of the present study is as under :

- CHAPTER - I : Definition, Introduction, Significance of Small Scale Industries in India
- CHAPTER - II : Development of SSI in Abroad and in India
- CHAPTER - III : Industrial Policies with Special Reference to Small Scale Industrial Units from 1948 to 1991
- CHAPTER - IV : Small Scale Industries in Five Year Plans
- CHAPTER - V : Financial Institutions and Banks Engaged in SSI
- CHAPTER - VI : Problems of Small Scale Industries
- CHAPTER - VII : Conclusions and Suggestions

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