

6.1 MEANING AND DEFINITION OF SMALL SCALE INDUSTRY

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. There are at least 50 different definitions of SSI's found and used in 75 countries. In some of the countries of the world the criterion for defining small enterprise is related to the size of employment. For example in USA a small enterprise is one which has employment of 500 people. In UK it is less than 20 skilled labours, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries the definitions of SSI are related to either investment or size of employment or both.

The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labour force. On the recommendation of the Federal association of small industries of India (FASI), only

the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the table 6.1. An ancillary unit is one which sells not less than 50% of its manufac-turers to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and house-hold industries as shown in fig 6.1.

Table 6.1

1950	The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labour usually 10 to 50 hands.
1954-55	The Government of India set up Central Small Scale Industries Organization (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.
1960	Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed asset up to Rs. 5 Lakhs was called as SSI.
1975	The investment limit was rise to Rs. 10 Lakhs (15 Lakhs for ancillary units).
1980	The investment limit was rise to Rs. 20 Lakhs (25 Lakhs for ancillary units).
1985	The investment limit was rise to Rs. 35 Lakhs (45 Lakhs for ancillary units).
1995	The investment limit was rise to Rs. 60 Lakhs (75 Lakhs for ancillary units).
March 1997	The investment limit was raised to Rs. 3 Crore.
1999-2000	The investment limit was reduced to 1 Crore.
2007	Limit is 1 Crore only.

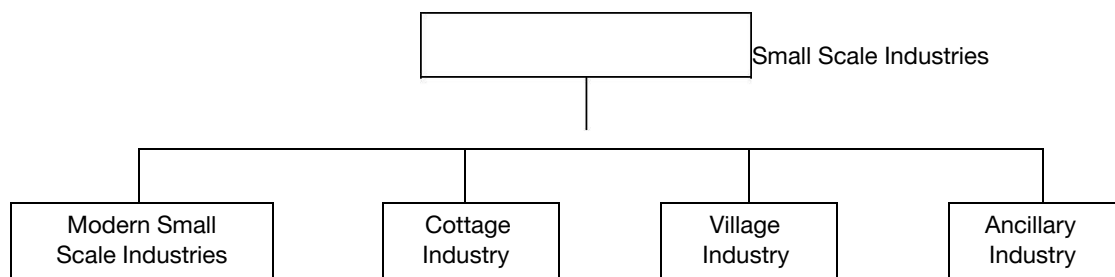


Fig. 6.1: Types of small-scale industries

6.2 CHARACTERISTICS OF SSI

The following are the characteristics of SSI

- (1) A small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others are as sleeping partners.

- (2) In case of SSI, the owner himself or herself is a manager also and hence an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business decision making.
- (3) The scope of operation of SSI is generally localized, catering to the local and regional demands.
- (4) The gestation period i.e., the period after which return on investment starts is relatively lower when compared to large units.
- (5) SSI's are fairly labour intensive with comparatively smaller capital investment.
- (6) Small units use indigenous resources and therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
- (7) Using local resources Small Units are decentralized and dispersed to rural areas. Thus small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.
- (8) Small scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

6.3 RATIONALE

Emphasizing the very rationale of Small-scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated:

“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 mobilization of resources of capital and skill which might otherwise be unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country”.

The rationale of small scale industries so established can broadly be classified into four arguments as discussed below.

1. Employment Argument

In view of abundant labour and scarce capital resources, the most important argument in favor of the SSI's that have a potential to create immediate large scale employment opportunities. There are many research findings available which will establish that small-scale units are more labour intensive than large units. Small units use more of labour per unit than investment. Studies have shown that the output-employment ratio is the lowest in small sector, employment generating capacity of small sector is eight to ten times that of large scale sectors.

Some scholars oppose this argument. They are of the opinion that employment should not be created for the sake of employment. According to them it is not how to

absorb surplus resources but how to make the best use of scarce resources. Then employment argument becomes output argument.

2. Equality Argument

An important argument in favor of small-scale industries is that they ensure a more equitable distribution of national income and wealth. This is based on two major considerations:

- (i) Compared to ownership of large scale units, the ownership of small-scale units is wide spread.
- (ii) Their more labour-intensive nature and decentralization and dispersal to rural and backward areas provide more employment opportunities to the unemployed. Most of these small-scale units are proprietary or partnership concerns, the relations between workers and employers are more harmonious in small-scale units than in large-scale units.

Dhar and Lydall do not agree this argument and give statistical evidence that wages paid to workers in small-units are much lower when compared to the workers in large industries. Workers in small enterprises due to non-existence of trade unions are unorganized and therefore are easily exploited by the employers. But in an under-developed country like India, even if small-scale units provide low paid jobs, they would be of virtual importance in our economy where millions are already in search employment to eke-out their livelihood.

3. Decentralization Argument

Big industries are concentrated every where in urban areas, but small industries can be located in rural or semi-urban areas to use local resources and to cater to the local demands. Hence it promotes balanced regional development in the country. Though it is not possible to start small-scale industry in every village, but it is quite possible to start small units in a group of villages. Decentralization will help tap local resources, idle savings, and local talents and improves the standard of living even in erstwhile backward areas. The good example of this phenomenon is the economy of Punjab which has more small-scale units than even the industrially developed state of Maharashtra.

4. Latent Resource Argument

According to this argument, small enterprises are capable of mapping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability etc. Dhar and Lydall feel that the real source of latent resources argument lies in the existence of entrepreneurial skill. According to them there is no evidence of an overall shortage of small entrepreneurs in India. Hence they doubt the force of this latent resource argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises?

The emergence of entrepreneurial class requires a conducive environment. The impressive growth in the number of small enterprises in the post independent period highlights the fact that, providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

6.4 OBJECTIVES

The various objectives of developing small-scale industries are in fact, implied in one way or other, in its rationale itself, just discussed in the section 6.3. However, an attempt has been made in this section to enumerate the main objectives of developing small enterprises in India.

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

6.5 SCOPE

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are:

Manufacturing activities
Servicing/repairing activities
Retailing activities Financial
activities Whole-sale business
Construction activities

Infrastructural activities like transportation, communication etc.

In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country. In 1967 only 47 items were reserved for exclusive manufacture in small scale sector. In 1983 the reserved

list included 836 items. Later Abid Hussain committee dereserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, foot wares, plastic and rubber products, chemical and chemical products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However the main objective of reservation policy has been insulated small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

6.6 ROLE OF SSI IN ECONOMIC DEVELOPMENT

Economic development is defined in a number of ways; the commonest definition could be 'an increase in real per capita income of a person resulting in improvement in the levels of living'. The developments of small-scale industries contribute to the increase in per capita income. The role of SSI in economic development is given below.

1. Employment

SSI use labour intensive techniques and therefore provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.

2. Optimization of Capital

SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to mobilise small and scattered savings and channelise them into industrial activities.

3. Balanced Regional Development

SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas.

4. Mobilization of Local Resources

SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.

5. Export Promotion

SSI helps in reducing pressure on the country's balance of payments in two ways. First they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector.

6. Consumer Surplus

SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries.

7. Feeder to Large Scale Industries

SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc. to large scale industries. They serve as ancillary units.

8. Social Advantage

Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and independent living to people with limited resources. They facilitate wide participation of public in the process of development.

9. Share in Industrial Production

SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.

10. Development of Entrepreneurship

Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

6.7 ADVANTAGES OF SMALL SCALE INDUSTRIES

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and manpower.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries.

- Wherever high technology involved the parent company executives will help. Alternatively, consultants can be hired to sort out technology related problems.
- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.
- In case of rural sector the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries the SSI units are a necessity to assist bigger industries and new projects. Thus they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.
- In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.
- Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.
- The small units are exempted from excise duty up to 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus lot of paper work and formalities are avoided.
- Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence there will be no trade union activity.

6.8 STEPS TO START AN SSIS

Starting an SSI is a complex job. The potential entrepreneur has to pass through a number of steps in a step-by-step approach to achieve his goal of setting up an SSI. In fact, deciding and motivating the self is the first bedrock upon which the establishment concept of an enterprise is entirely posited. Similarly, the identification of a viable project ensures the proposition that “well begun is half done”. Hence the various steps involved in establishment of an enterprise through which the entrepreneur may pass are the following:

1. **Decision to be self-employed:** This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.
2. **Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):** The potential entrepreneur has to analyze his strengths, weak-nesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of business would be the most suitable. This will vary from person to person.

3. **Scanning of business environment:** It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.
4. **Training:** Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor-made Entrepreneurship Development Programmes (EDPs) and skill up gradation training programmes for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.
5. **Product selection:** The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a few of them as discussed in the last chapter. Closely examine with the help of opportunity analysis each one of them and zero on the final product or products.
6. **Market survey:** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this, and will be discussed later.
7. **Form of organization:** A firm can be constituted as proprietorship, partner-ship, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur's business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.
8. **Location:** The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.
9. **Technology:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most

suitable one to be identified. This will also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.

10. **Machinery and equipment:** Having chosen the technology, the machinery and equipment required for manufacturing the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.
11. **Project report preparation:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the report (see chapter 8).
12. **Project appraisal:** Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. While preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable, and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:
 - (a) Economical appraisal
 - (b) Financial appraisal
 - (c) Technical appraisal
 - (d) Management appraisal
 - (e) Organizational appraisal
 - (f) Operational appraisal
 - (g) Market appraisal
13. **Finance:** Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which

provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise. Details of it are discussed in chapter 7.

14. **Provisional registration:** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/KVIC. The table 6.2 and table 6.3 gives the details.
15. **Technical know-how:** In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.
16. **Power and water connection:** The sites, where the enterprise will be located, should either have adequate power connections or this should be arranged. Entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise as it can materially affect the installation cost. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.
17. **Installation of machinery:** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.
18. **Recruitment of manpower:** Once machines are installed, the need for man-power arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labour, administrative staff etc. Further, sources of getting desired labour and staff members be indentured and recruited. Possibly, the labour force has to be trained either at the entrepreneur's premises or in a training establishment.
19. **Procurement of raw materials:** Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap and assured sources of supply of raw materials for running his own enterprise. Government agencies. (See table 6.2) can assist in case the raw materials are scarce or imported.

20. **Production:** The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages:

- (i) Trial production
- (ii) Commercial production

Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss in the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

21. **Marketing:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity, etc. have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:

- (i) Test stage
- (ii) Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small industries marketing corporation.

22. **Quality assurance:** Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.
23. **Permanent registration:** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.
24. **Market research:** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, upgradation and growth. Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.

Table 6.2: Sources of information

Sl. No.	Area	State level agencies	National level agencies
1.	Project selection	SISI, DIC, IDC'S, IIC's, TCO's, SFCs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IIC, IFCI, IPB, NRDC, EDI
2.	Registration and Licenses	CIF, DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA, STC, TC	CECD, CCIE, ISI, IDC, MIC, NSIC, RC, RT, SC, DGTD
3.	Finance	DIC, Bank, SFC, SIC, IICs, IDCs	CB, CEC, ICICI, IDBI, IFCI, NISC, SBI, DIC
4.	Technical	DDCA, DIC, DJCII, TOCs, GMD	CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR
5.	Training	EDPs, SISI, TCDs, DICs	SBI, CB, CIPET, IRL, NISIET, IITs, NISBUT, EDI
6.	Infrastructure facilities	DIC, EB, IDC, LA	-
7.	Raw materials	DIC, MID, MDC, SIC, IC, STC	CCIE, MMTC, MDC, SPC
8.	Plant and machinery	DIC, IIC, SFC, SEC, IC, IDB	CCIE, NSIC, SISI
9.	Marketing information	DIC, TCO's, SEC, SIC, RIMCO	DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR

Table 6.3: Application forms

S. No.	Subject	Agencies
(A)	Planning Stage	
1.	Provisional registration number	DIC
2.	Application for shed or plot	SIDC
3.	No objection certificate from local authorities	LA (Local Authority)
4.	No objection certificate from health department	District health officer
5.	No objection certificate from electricity department	Electricity department
6.	Loan application for term loan	SFC / NB / NSIC
7.	Subsidy registration	DIC
8.	Application for building plan and estimates	Approval of architect / contractor
9.	Application for bank account / cash credits / working capital loan	NB
10.	Application for air and water pollution no objection certificate	State pollution control authority
11.	Application for the approval of production programme for certain restricted items	DIC, SISI, Central Ministry

Contd...

12.	Registration of partnership deed	Registrar of firms
13.	Application for ancillary units	Parent companies
14.	Registration of firms	Register of firms
15.	Application for the boilers and plant layout of the unit	Inspector of Boilers
16.	Application for the production of petroleum based products	Ministry of Petroleum
17.	Application for Excise Registration Number	Excise Department
18.	Application for Latex in rubber based products	Rubber Board
19.	No objection certificate from Forest Department for wood based products	State conservation of forests
20.	Applications for essential commodity items as raw materials	District Civil Supply Department
21.	Application for imported raw materials	DIC / Export-Import Boards
22.	Application for imported of machines	DIC / Export-Import Boards
23.	Application for raw materials quota	D / C / Export – Import Boards.
(B)	During Implementation of Project	
24.	Application for power connection	Local Electricity Dept.
25.	Application for water	LA
26.	Application for C-Form (Sales Tax)	Sales Tax Department
27.	Application for state Sales Tax Registration	Sales Tax Department
28.	Application for central Sales Tax Registration	Sales Tax Department
29.	Application for exemptions from Sales Tax	DIC / Sales Tax Dept.
30.	Application for exemption from Octroi Duty	DIC / LA
31.	Application for storing of inflammable raw material	Director of Explosives.
(C)	During Running of Enterprise	
32.	Application for Permanent Registration Number	DIC / Directorate of Industries
33.	Application for subsidy claims	DIC
34.	Application for power subsidy	LA
35.	Application for food preservation ordinance license.	Food Controller
36.	Application for registration in case of more than 20 employees without power use or more than 10 employees with power use.	Labour Welfare Board / Employment Exchange / P.F. Commissioner
37.	Application for product marketing to the Central Government Department	DIC, DGSD

Learning activity 6.1: Meet an entrepreneur and discuss with him the steps he has taken while starting his enterprise. Also identify the difficulties he has faced in starting his industry.

6.9 GOVERNMENT POLICY: INDUSTRIAL POLICY RESOLUTIONS

Major Environment

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that industrial units in the public and private sector will be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were in great relevance to industrial units. In the field of industry, government's objectives and intentions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in 1948, 1956, 1977, 1980 and 1990 (for a summary, see table 6.4). We shall briefly state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policy and activities of the different interface institutions have covered SSE in addition to SSI. The earlier thinking was mostly addressed to SSI.

IPR 1948

The industrial sector in 1948 was not different from the one existing in pre-1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making agricultural implements, a few urban small units and handloom units weaving clothe. The greatest economic significance of these units to the Indian economy was their employment potential. It was this potential which called for protection through policy and the main thrust of IPR 1948 as far as the small scale sector was concerned was **protection**.

IPR 1956

The second IPR was announced against the background of a bolder Second Five Year Plan, with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz. (i) manufacture of consumer goods such as clothe and (ii) manufacture of components for the newly established industry as part of the programme for long term industrial development. Thus, to the earlier emphasis of protection was added development. Industrial Policy for SSI aimed at “**Protection plus development**”. IPR 1956 in a manner initiated the modern SSI in India.

IPR 1977

The next IPR was announced after a lapse of two decades. During the preceding decades, two major problems had been witnessed. First was the lopsided industrial

development—large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment—the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

This situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was: scale of output should be small, location semi urban/rural and technology, labour intensive.

This was the IPR which assigned a positive role to SSI in terms of wage employment of worker and self-employment of the entrepreneur. This was the IPR which therefore, offered a wider perception to policies and programmes for SSI development. To the earlier thrust of protection (IPR 1948) development (IPR 1956) this resolution added promotion. The SSI sector was thus, to be **protected, developed and promoted**.

IPR 1980

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

IPR 1990

This IPR was announced during June 1990. Its basic aim is to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base of industry and accomplishing higher levels of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology the investment limit of SSI has been raised to Rs. 60 lakhs.

SSI Policy Framework—Latest Amendment

In line with new economic policies, a policy document for SSI was announced on 6th August 1991.

It continued priority sector lending to SSI by Banks/Financial Institution.

- Excise exemption scheme
- Reservation of items for exclusive production
- Price and purchase preference
- Uniform package of incentives of the entire sector It

introduced new measures like:

- Removal of location restrictions
- Enhancement of coverage, limits
- Shift towards infrastructural development support

- Inclusion of services in this sector
- Allowing equity investment in SSI (up to 24%)
- Shift from protection/regulation to promotion of equality, technology and efficiency
- Substantial de-regulation and simplification of rules and procedures.

Table 6.4: Industrial policy resolution: a summary

Year	Main objective	Principal measure	The SSI universe
IPR 1948	Protection	Raw material cheap power technical advice, marketing of products, Safe-guarding against excessive competition from large units.	Village-based small enterprises Repairs-cum-job shops Units using local market, raw materials, labour. Hence locally self-sufficient.
1956	Protection plus development	Protect artisan based non-tech. enterprise development. Modern SSI for Industrial and consumer goods. Provide capital and skill. Develop export based units. Achieve regional balance through SSI. Package of assistance and incentives infrastructure, technological upgradation. Reservation of items for SSI.	Tiny/cottage rural units. Modern SSI units in urban areas. Units employing labour intensive technology. New entrants to SSI-new entrepreneurs. Ancillary units. Modern SSI.
1977	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production.	– do –
1980	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production, nuclear plant for SSI growth, reservation products for SSI.	– do –
1990	Promotion of equality, technology and efficiency	Promotion of SSI and agro-based industries reservation of products 836 and new lines to be identified. Central subsidy-rura investment I and backward areas. Technology centers for modernization. Small industry Development Bank (SIDBI). Facilities of KVIC and KVI boards to be expanded to help artisans in marketing. Agro-processing industry to receive high priority.	– do –

Learning activity 6.2: Visit a small-scale industry and find what benefit the entrepreneur has availed from Industrial policy.

6.10 GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLAN

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans. The expenditures for SSI during the eight Five Year Plans are given in table 6.5.

First Plan: In the first Five Year Plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small-Scale Industries Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

Second Plan: As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place. The total expenditure during this plan towards SSI was Rs. 187 crores. In addition some items were reserved for exclusive production in small-scale industries.

Third Plan: The third Plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

Fourth Plan: The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the fourth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

Fifth Plan: The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stacking the land. During this plan the expenditure incurred is Rs. 592 crores.

Sixth Plan: Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan 836 items were reserved for manufacturing in small-scale industries and reserved 409 items for exclusive purchase from small scale industries. In addition, SIDO (Small-Industries Development Organization) was established to provide consul-tancy services in technical, managerial and marketing. In 1982 CART (Council for Advancement of Rural Technology) was established for providing necessary technical input to 23 rural industries. By the end of sixth plan, the production from small and cottage industries increased to Rs. 65,730 crores, exports touched Rs. 557 crores and employment in SSI sector reached 315 lakh persons. This accounts for 80% of the total industrial employment.

Seventh Plan: The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was “competition” and “not reservation”.

The actual expenditure of Rs. 3,249 crores surpassed the plan outlay of Rs. 2,752 crores. The value of production increased from Rs. 57,100 crores to Rs. 91,681 crores.

Eighth Plan: The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role. The proposals of this plan are

- (i) The plan reiterated that timely and adequate availability of credit is more important than concessional credit. For this purpose SIDBI was established, certain new initiatives like sanction of composite loans under ‘single window system’, concessional loans to state corporations for infrastructural developments were introduced.
- (ii) Eighth plan proposed to establish tool room and training institutes in order to upgrade technology.
- (iii) Growth centre approach has been accepted and 70 growth centers were established. In addition establishment of functional industrial estates with agricultural and horticulture products was also proposed.
- (iv) Proposed to establish integrated infrastructure development centers for tiny units. For this the centre, the state governments and industry associations were also involved.

Table 6.5: Expenditure towards SSI in Five Year Plans

Plan/period	Total expenditure towards SSI (in crores)
First (1951-56)	48.00
Second (1956-61)	187.00
Third (1961-66)	248.00
Fourth (1969-73)	242.00
Fifth (1974-78)	592.00
Sixth (1980-85)	1,945.00
Seventh(1985-90)	3,249.00
Eighth (1992-97)	6,334.00

NEW POLICY INITIATIVES IN 1999-2000 FOR SMALL SCALE SECTOR

The government of India has announced new policy initiatives for small-scale sector in 1999-2000. The features of new policy are listed below.

- (1) A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural indus-trialization.

- (2) To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the office of DC (SSI) to disseminate information to SSI Associations and SME units, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO sensitization seminars, workshops.
- (3) Cotton yarn has been included in the general excise exemption scheme for SSIs.
- (4) Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.
- (5) Announcement of a new credit insurance scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI units, particularly export oriented and tiny units.
- (6) The working capital limit for SSI units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.
- (7) To increase the reach of banks to the tiny sector, lending by banks of Non-Banking Financial Companies (NBFCs) or other financial intermediaries for purpose of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.
- (8) Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of other manufacturers in rural areas.
- (9) The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crores to Rs. 1 crore.

Learning activity 6.3: Meet two entrepreneurs, one in manufacturing and one in service sector. Discuss with them the factors they have considered for product selection and location of the enterprise.

6.11 IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI

Before the introduction of new economic reforms in 1991 following the inevitable globalization, the SSI sector was overprotected. The small scale industry never had a strong desire to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small scale units into large ones and had a stunting effect on manufacturing, employment and output growth. With the globalization, the SSIs are now exposed to severe competition both from large-scale sector, domestic and foreign and MNCs. The effect of globalization can be summarized as below.

- (1) The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor

growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.

- (2) The problems of SSI in liberalized environment have become multidimensional-delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.
- (3) Globalization resulted in opening up of markets, leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small-scale or large scale has to face competition. The process was initiated for small-scale units by placing 586 of its 812 reserved items on the open general license list of imports.
- (4) With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

In the changed environment after globalization and liberalization, the policies and projects for the SSI sectors will have to be effective and growth oriented (not just protecting) so as to achieve competitiveness.

In order to protect, support and promote small enterprises, a number of protective and promotional measures have been undertaken by the central government.

The promotional measures cover the following:

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas
- Technical consultancy and financial assistance for technological upgradation

6.12 IMPACT OF WTO/GATT ON SSI

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international

trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world wide in favour of the free market forces and tilt away from state regulation/intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows. The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms.

Increased market access to imports will mean opening up the domestic market to large flows of imports. The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy. Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.

SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

6.13 SUPPORT

Meaning and Need for Support

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know very clearly about the type and extent of their financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host of institutions to meet the financial requirements of small entrepreneurs.

Starting an industrial unit require various resources and facilities. Small scale enterprises, given their small resources, find it difficult to have these own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. Hence finance is considered as “life blood” for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activities, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry. The various kinds of support and facilities provided are discussed in the next section. The various central, state government institutions are discussed in detail in chapter 7.

6.14 AGENCIES OF GOVERNMENT FOR SSI

The ministry of small scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, programmes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of policies, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organization (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and

various training institutes. The institutional network can be broadly classified as under and is shown in fig. 6.2.

- (1) Central level institutions/agencies
- (2) State level institutions/agencies
- (3) Other agencies

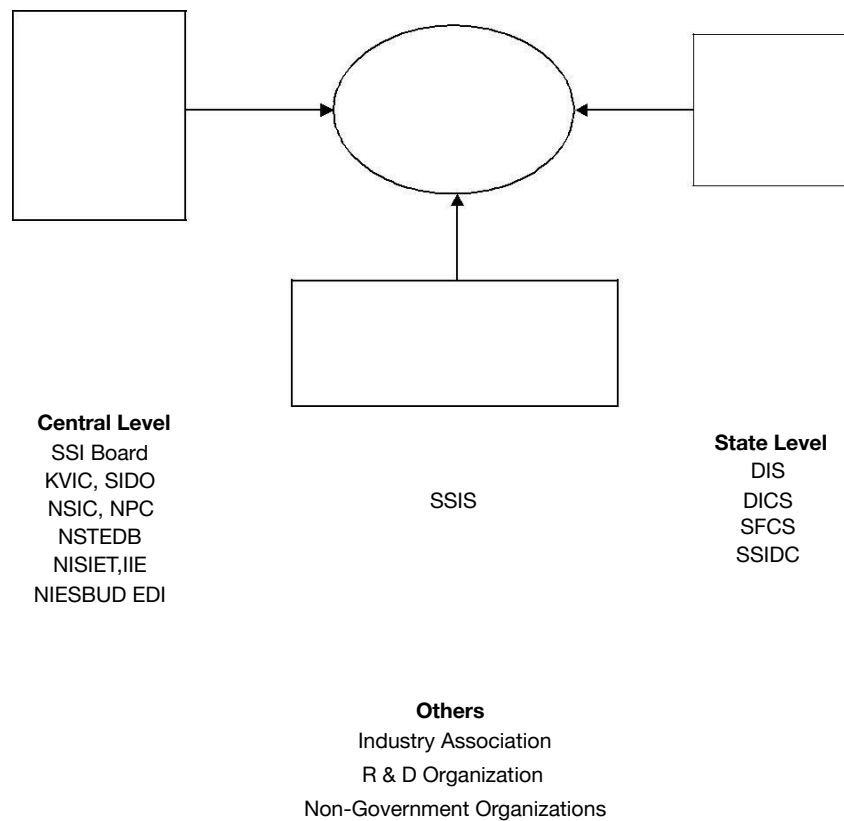


Fig 6.2: Institutions supporting small-scale industries

6.15 NATURE AND TYPES OF SUPPORTS

Policy Support

- (1) The investment limit for the tiny sector will continue to be Rs. 25 lakh.
- (2) The investment limit for the SSI sector will continue to be at Rs. 1 crore.
- (3) The ministry of SSI and ARI will bring out a specific list of hi-tech and export-oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.

- (4) The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of parliament.

Fiscal Support

To improve the competitiveness of small-scale sector the exemption for excise duty Limit rose from Rs. 50 lakhs to Rs. 1 crore.

- (1) The composite loans limit rose from Rs. 10 lakh to Rs. 25. lakh.
- (2) The Small-Scale Service and Business (Industry Related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.
- (3) In the National Equity Fund Scheme, the project cost limit will be raised from

Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.

- (4) The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.
- (5) The Department of Economic Affairs will appoint a Task Force to suggest revitalization/restructuring of the State Finance Corporations.
- (6) The Nayak Committee's recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks.

Infrastructure Support

- (1) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas.
- (2) Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.
- (3) A plan scheme for cluster Development will be drawn up.
- (4) The Funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centers, for cluster Development and for setting up of IIDs in the North-East including Sikkim.

Technological Support and Quality Improvement

- (1) Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.
- (2) To encourage Total Quality Management, the scheme of granting Rs. 75,000/-to each unit for opting ISO-9000 Certification will continue for the next six years i.e., till the end of the 10th plan.
- (3) Setting up of incubation centers in Sunrise Industries will be supported.
- (4) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET programme) and APCTT.
- (5) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.

- (6) Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.
- (7) One-time capital grant of 50 percent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

Marketing Support

- (1) SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.
- (2) The vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

Informational Support

- (1) General information.
- (2) Technical/Marketing expertise in specific areas.
- (3) Technical and financial expertise.
- (4) Implementation assistance for turn-key projects.

Incentives and Subsidies

- (1) Export-import subsidies.
- (2) Interest free loans.
- (3) Subsidy for R & D work.
- (4) Capital investment subsidy.
- (5) Transport subsidy.
- (6) Interest subsidy.
- (7) Subsidy for power generation.
- (8) Exemption from property tax.
- (9) Incentives for NRI.
- (10) Exemption from income tax.
- (11) Sales tax exemptions.
- (12) Price preference to SSIs.
- (13) Subsidy/assistance for technical consultancy.
- (14) Exemptions from stamp duty.
- (15) Provisional for seed capital.
- (16) Allotment of controlled or subsidized raw materials.
- (17) Subsidy for cost of market study/feasibility study or reports.

Other Types of Support

- (1) Streamlining Rules and Regulations.
- (2) Entrepreneurship development training.
- (3) Rehabilitation of sick units.

Learning activity 6.4: Visit an entrepreneur and discuss with him about the agencies to be contacted for registration, marketing assistance and technical support.

6.16 ANCILLARY, TINY AND SERVICE INDUSTRIES

An ancillary unit is one, which sells not less than 50 % of its manufactures to one or more industrial units. The limit of investment is same for ancillary units and small-scale industries.

The investment limit for tiny industry is Rs. 25 lakh in plant and machinery. There is no restrictive condition of the location of the unit in small towns. These enterprises would be entitled to preference in land allocations, power connection, access to facilities or skill/technical upgradation. These would also have easy access to institutional finance, priority in Government purchases and relaxation in labor laws.

Service units provide services such as hotel and hospital services. The investment ceiling is fixed at Rs. 1.0 million (excluding land and buildings).