BLOCK 3
INDUSTRIAL SECTOR

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Block 3 of this course is on 'Industrial Sector' in India. It deals with two broad areas viz. (i) Industrial Growth and Policy and (ii) Small Scale Industries. The two areas are covered in Units 9 and 10 respectively.

Unit 9, on '**Industrial Growth and Policy**', begins with a brief review of past policies of industrial growth before the 1990s. The industrial policy of 1991 is then described. Trends in industrial growth in India is discussed over four phases viz. 1951-65, 1966-80, 1981-91 and post-1991. A brief note on Competition Commission of India is provided towards the conclusion of the unit.

Unit 10 is on '**Small Scale Industries**'. It begins with an outline of 'Classification of SSIs in India'. The rationale for the promotion of SSIs is then explained. Policies and programmes to remove the disabilities of SSIs to aid its 'growth and performance' is discussed. The features of the MSMED Act, 2006, is explained. The unit concludes with an outline of the 'Industrial Policy for the Small and Tiny Enterprises, 2017'.

UNIT 9 INDUSTRIAL GROWTH AND POLICY*

Structure

9.0 OBJECTIVES

After reading this unit, you will be able to:

- indicate the broad framework adopted for advancing India's industrial development immediately after independence;
- describe the major features of the three industrial policies (1956, 1977 and 1980) adopted over the years 1956-1991;
- discuss the major features of the New Industrial Policy of 1991;
- analyse the trends in industrial growth in India during its major phases; and
- state the functions and challenges of Competition Commission of India.

9.1 INTRODUCTION

All developed countries have followed a common pattern of economic development in which there has been a gradual decline in the share of agriculture in total output and a steady increase in the share of industry.

* Prof. Sudakshina Gupta, Calcutta University

However, by the 1950s, industrial growth had reached its peak and then levelled off in all the developed countries. Since then, the share of the service sector in total output has been consistently increasing in these countries. Growth of employment in these countries has been found to follow the pattern of national output growth.

India has predominantly been an agrarian economy. Prior to independence, India's manufacturing sector comprised of handicrafts and textiles with a world-wide market. Its products such as cotton and silk fabrics, calicoes, wooden handicrafts and some pharmaceutical products were exported after fulfilment of domestic demand. However, the policies of the British Government led to the decay of Indian handicrafts. For instance, raw materials at very cheap rates were exported from India and high priced finished products brought back from England were sold in Indian markets. Such a discriminatory policy of the British government completely destroyed India's manufacturing sector. However, post-independence, a series of industrial polices were formulated to guide the course of India's industrial development.

9.2 POLICIES BEFORE 1990s

The first policy for India's industrial development was the Industrial Policy Resolution (IPR) of 1948. The policy envisaged a mixed economic system in which importance to both the public and the private sectors was accorded. The private sector was, however, allowed to function with adequate regulation. The major features of this policy were the following.

i) **Division of Industries:** The industries were divided into four broad categories. In the first category, items like arms and ammunition, atomic energy, rail transport, etc. (with the central government having exclusive monopoly) were kept. In the second category, industries like coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils were kept. The operation of these industries were also to be undertaken by the central government only. The industries in the third category were left to the private sector. However, their operation was subject to planning and regulation of the government. The industries included in this category were automobiles, tractors, prime movers, electric engineering, heavy machinery, machine tools, heavy chemicals, fertilisers, electrochemical industries, non-ferrous metals, rubber, cotton and woollen textiles, cement, sugar, salt, paper and newsprint, air and sea transport, etc. In the fourth category, all remaining industries were left open to private enterprise with a provision that if any industry showed unsatisfactory performance the State would intervene.

ii) **Role of Foreign Capital:** The need for foreign capital to boost the pace of industrialisation was recognised. However, it was specified that the ownership and management in industries with foreign capital would rest with Indians.

iii) **Role of Cottage and Small Scale Industries:** The role of cottage and small scale industries in industrial development was recognised especially those suited for local resource utilisation and for creating jobs.

iv) **Labour Policy:** To foster a harmonious relation between the labour and management, a policy of fair wages and labour participation in management was proposed to be followed.

Within the above framework, the architecture for the industrial development of India was laid out and pursued for the next eight years i.e. up to 1948.

9.2.1 Industrial Policy Resolution, 1956

Certain significant changes took place in the Indian economy in the eight years following the implementation of IPR 1948. These are: (i) completion of the first five year plan (1951-56); (ii) enactment of The Industries Development and Regulation Act was passed in 1951; and (iii) adoption of a 'socialistic pattern of society' as the goal of the country. Against this backdrop, the IPR, 1956 was adopted with the following important features.

i) **Division of Industrial Sector:** The industrial sector was classified into three schedules. In the first category (Schedule A), seventeen industries whose development was to be the exclusive responsibility of the central government were included [e.g. (i) arms and ammunition and allied items of defence equipment; (ii) atomic energy; (iii) iron and steel; (iv) machinery and tools; (v) heavy electric plants; (vi) mining and processing of copper, lead, zinc, tin; (vii) atomic energy, aircraft, air and rail transport; (viii) ship building, telephone, telegraph and wireless apparatus; (ix) generation and distribution of electricity; etc.]. Of these, four industries viz. arms and ammunition, atomic energy, railways and air transport were to be government monopolies. In the remaining thirteen industries, all new units were to be established by the government or public sector, but existing units in the private sector were allowed to exist and expand. In the second category (Schedule B), industries which were government-owned and in which the private sector enterprises were expected to supplement the efforts of the government were included. All minerals (not included in Schedule A), antibiotics, fertilisers, synthetic rubber, road and sea transport, etc. were also included here. The central government would establish new units increasing its participation in these industries but would also allow the private sector to set up new units or expand existing ones. In the third category (Schedule C), Industries not listed in Schedules A and B were included. These industries were left open to the private sector although the government or public sector could also participate. The aim was to give favourable atmosphere and opportunities to the private sector.

ii) **Mutual Dependence of Public and Private Sector:** The government sector and the private sector were to be mutually dependent rather than mutually exclusive. Apart from four sectors i.e. arms and ammunition, atomic energy, railways and transport, the private sector could operate in any other area reserved for the State. The government too could enter category C. Requirements of the public sector establishments could be met from by-products of the private sector and vice-versa.

iii) **Importance of Small-Scale Industries:** The 1956 Resolution too recognised the importance of the small-scale and cottage industries in creating employment opportunities, ensuring a more equitable distribution of income and wealth, etc. The State would help this sector by following a differential taxation policy. It will also help the small-scale sector through direct subsidies and provide help in modernising their techniques.

iv) **Reduction of Regional Disparities:** In order that industrialisation benefits the country as a whole, the 1956 Resolution proposed improvement of transport facilities and power in the backward regions to reduce the regional disparities. The State would encourage the development of industries in the private sector through the provision of transport, power and other services and through appropriate fiscal and other policies. Special assistance would be given to enterprises organised as cooperatives.

v) **Industrial Peace:** It was recognised that in the socialistic democracy, labour is an important participant in the development process and for maintaining industrial peace and improving the living and working conditions of labour, necessary steps would have to be taken.

vi) **Skill Formation:** The resolution accepted that there was a shortage of skilled technical and managerial personnel in the country and hence there was a need to set up technical institutions and management courses in universities.

vii) **Foreign Capital:** As in the Resolution of 1946, the same policy towards foreign capital was proposed in the 1956 Resolution.

The Industrial Policy Resolution of 1956 did not get a very favourable response from the private industrialists because they were apprehensive of the major role to be played by the public sector. However, the criticism of the Resolution did not take into consideration the needs of the time which entailed a strong and vibrant public sector to take the industrial development forward.

9.2.2 Industrial Policy Statement, 1977

A new industrial policy was announced in December 1977 with its main elements as follows.

1) **Development of the Small Scale Sector:** The policy proposed that whatever can be produced by the small scale and cottage sector must only be produced by it. This sector was divided into three categories: (i) cottage and household industries which provide self-employment on a wide scale; (ii) tiny sector incorporating investment in industrial units in machinery and equipment up to Rs. 1 lakh and situated in towns with a population of less than 50, 000; and (iii) small-scale industries (SSIs) comprising industrial units with an investment of Rs. 10 lakh and in case of ancillaries with an investment in fixed capital up to Rs. 15 lakh.

   A 'District Industries Centre' was proposed to be set up to provide all the support and services required by the small scale entrepreneurs. To meet the credit requirements of the small scale sector, a separate wing of the IDBI was to be created. A revamping of the Khadi and Village Commission was proposed to enlarge its area of operation. Share of small scale sector in footwear and soaps was proposed to be increased. Stress was given to develop and apply suitable technology in this sector in order to increase its productivity and enhance the earning capacity of its workers.

2) **Large Scale Sector:** The large-scale sector would cater to: (i) basic industries like steel, nonferrous metals, cement, oil refineries, etc. for providing infrastructure and help the development of small-scale and village industries; (ii) capital goods industries for meeting the requirements of supplying machinery for both basic and SSIs; (iii) high technology industries like fertilisers, pesticides, petrochemicals, etc. required for large scale production and for the use of agricultural and small-scale sectors; and (iv) industries like machine tools and organic and inorganic chemicals which were not in the reserved list for SSIs but were essential for economic development.

3) **Approach towards Large Business Houses:** The growth of Large Industrial Houses was considered disproportionate to the amount of their internally generated resources. With the borrowings from public financial institutions and banks making up for most of their assets, the Policy sought that no large business acquired a monopolistic position in the market.

4) **Public Sector Role Expansion:** The public sector would be the producer of basic goods both important as well as strategic. It would act as a stabilising force in maintaining essential supplies to the consumer and promote ancillary industries by extending technical/managerial expertise to the small-scale sector.

5) **Promotion of Technological Self-reliance:** Inflow of technology was proposed only in sophisticated and high priority areas was proposed where Indian technology had not adequately developed. In areas where

foreign technology was not further needed, renewal of foreign collaborations was discouraged.

6) **Approach Towards Sick Units:** Although the government accepted that it was necessary to protect employment in the sick units, the cost of maintaining them was also be taken into account. In other words, the process of financing sick units could not go on indefinitely.

Critics point out that products like biscuits, footwear, leather products, etc, which were supposed to be reserved for the small-scale sector were being produced by multinationals and large business houses. The large industrial houses were dissatisfied with the proposal that they had to generate resources internally rather than depending on financial institutions. No concrete steps were however taken to curtail the operation of multinational companies but were only asked to reduce their share under FERA.

9.2.3 Industrial Policy of 1980

The Industrial Policy of 1980 aimed at increasing industrial production through proper utilisation of installed capacity and expansion of industries so as to make more goods available to the Indian public at reasonable prices. The specific measures suggested in the Policy Statement are the following.

1) **Effective Operational Management of the Public Sector.** To re-establish the lost credibility of the public sector efforts to revive its efficiency were envisaged.

2) **Promotion of Economic Federalism:** Integrated industrial development, by removing the divisions between small scale and large scale industries, was proposed. For this, setting up of nucleus plants in backward districts around which ancillary, small and large scale industries would develop was proposed.

3) **Redefinition of Small Units.** Limit of investment in tiny units was raised from Rs. 1 lakh to Rs. 2 lakh, for SSIs from Rs. 10 lakh to Rs. 20 lakh and for ancillary units from Rs. 15 lakh to Rs. 25 lakh.

4) **Removal of Regional Imbalances:** Dispersal of industries to backward, rural and urban areas was proposed to remove regional imbalances. In the rural areas, handlooms, handicrafts and khadi were to be promoted so that higher employment as well as higher per capita income are generated.

5) **Regularisation of Unauthorised Excess Capacity in the Private Sector:** The Policy simplified the process of regularisation of unauthorised excess capacity. Installed capacities in excess of registered capacities in many industries, including the basic goods and goods of mass consumption, were regularised. However, for firms falling within the Monopoly and Restrictive Trade Practices (MRTP) Act and Foreign Exchange Regulation Act (FERA), this was not applied.

6) **Export Promotion:** For promoting exports, exemption of export oriented units from MRTP Act and allowing duty free import of capital goods and raw materials was envisaged.

7) **Promotion of Alternative Energy:** The manufacture of alternative sources of energy like solar energy, wind power, bio-gas, tidal power, etc. was delicensed.

8) **Industrial Sickness:** Specifying that deliberate mismanagement and financial impropriety would not be tolerated, genuine sick units were proposed to be merged with the healthy ones wherever possible.

The 1980 Policy was thus guided by the considerations of capital intensive growth with employment generation taking a somewhat backseat. It was largely free of criticisms. But a number of non-genuine cases availed of the benefits of regularisation of installed capacity. Despite the thrust in the small scale sector, it received 'residuary' treatment in the distribution of raw materials. As a result, industries did not disperse to the backward areas but remained concentrated in the developed regions.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What were the four broad heads under which the major features of the very first post-independence Industrial Policy Resolution of 1948 were outlined?

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2) What major changes that had taken place in India prompted the government to announce its second Industrial Policy Resolution of 1956?

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3) State the eight major heads under which the broad features of IPR, 1956 were outlined. Why did the IPR, 1956 did not receive a favourable response from the private industrialists?

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4) What are the broad elements of focus of the industrial policy of 1977? What particular view was taken by this policy towards the sick units?

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5) State the major measures proposed by the 'industrial policy of 1980'? How were the SSIs defined under this?

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6) Do you agree that the Industrial Policy of 1980 was employment promotive? Why?

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9.3 NEW INDUSTRIAL POLLICY, 1991

The New Industrial Policy, announced in July, 1991, was in line with the liberalisation measures announced in the eighties. Major deregulation measures announced in this policy are as follows.

1) **Industrial Licensing Policy:** The new policy abolished industrial licensing in nearly all fields except in 18 industries. This was done irrespective of the level of investment in the industries. The industries where licensing was to be continued included those related to security and strategic concerns, social sector, hazardous chemicals, environmental issues and items of elitist consumption. Licenses were also needed in certain industries like coal, alcohol, petroleum, sugar, cigarettes, hazardous chemicals, pharmaceuticals, etc. However, over the years, many industries have since been delicensed with, at present, only few items continuing to be under the licensing category. Some of these industries are: alcohol, cigarettes, hazardous chemicals, aerospace, etc.

2) **Policy on Public Sector:** The 1991 industrial policy reduced the number of reserved industries for public sector production from 17 (as mentioned in the 1956 Resolution) to 8. The industries reserved for the public sector included: (i) arms and ammunition; (ii) atomic energy; (iii) coal and lignite; (iv) mineral oils; (v) mining of iron/manganese/chrome ores; (vi) mining of copper/lead/zinc/tin; (vi) mining of gypsum/sulphur/ gold/diamond; (vii) mining of copper, lead, zinc, tin, molybdenum and minerals specified in the schedule to the atomic energy order of 1953 and (viii) rail transport. Currently (2015), only five industries are under compulsory licensing mainly on account of environmental, safety and strategic considerations. These are: (i) distillation and brewing of alcoholic drinks; (ii) cigars and cigarettes of tobacco and manufactured tobacco substitutes; (iii) electronic aerospace and defence equipment: (iv) all types of industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches; and (v) certain specified hazardous chemicals.

   The policy also suggested that those public enterprises which are chronically sick and which are unlikely to be turned around will, for the formation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR) in order to protect the interests of workers.

3) **Monopolistic and Restrictive Trade Practice Limit:** Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted only for selected industries and that too on a case to case approval basis. The New Industrial Policy removed the threshold limit in assets in respect of MRTP companies eliminating the requirements of prior approval. In the amended MRTP Act, emphasis has shifted to taking appropriate action against with monopolies now identified as those who control over 25 percent share of the market. The New Industrial Policy has therefore widened and strengthened the provisions of the MRTP Act.

4) **Policy on Foreign Investment and Technology Agreements:** In case of foreign technology agreements and foreign investment, earlier it was necessary to obtain specific approval for each project. This used to result in delays and government interference hampering business decision making. The New Industrial Policy allows automatic approval for foreign direct investment up to 51 percent foreign equity. The industries in which such automatic approval was granted included a wide range of industrial activities (e.g. capital goods, metallurgical, entertainment and electronic, food processing, etc.) having significant export potential. 100 percent foreign direct investment is allowed in: (i) Special Economic Zones (SEZs) for all manufacturing activities; (ii) investment in the power sector; (iii) oil refining; (iv) telecom sector for some activities; (v)

off shore Venture Capital Funds/Companies investing in domestic venture capital undertakings; etc.

5) **Removal of Mandatory Convertible Clause:** Since large part of industrial investment in India is financed by loans from banks and financial institutions, these institutions included a mandatory convertibility clause. The clause provided for the option of converting part of their loans into equity. This clause was interpreted as unwarranted by private firms who feared that it could lead to their undertakings taken over by the financial institutions. The new industrial policy provided for financial institutions to not impose the convertible clause.

The New Industrial Policy of 1991 thus proposed liberalising, globalising and privatising the industrial sector. Towards this end, three sets of reforms were introduced. These were: ONE, deregulation, de-licensing, decontrol and de-bureaucratisation of industrial licensing system; TWO, restriction of government interference through the MRTP Act; and THREE, initiation of several measures to facilitate foreign direct investment inflows. All these measures were launched in 1991 and since then, continued liberalisation measures have been introduced every year in each new budget.

9.4 TRENDS IN INDUSTRIAL PRODUCTION

The growth and structural changes in the Indian industrial sector over the plan period can be divided into the following distinct phases: (i) Phase I: 1950-51 to 1964-65; (ii) Phase II: 1965-66 to 1979-80; (iii) Phase III: 1980-81 to 1990-1; and Phase IV: 1991-92 onwards.

9.4.1 Phase I: 1951-65

At the time of independence, industries such as sugar, vegetable oils, cotton textiles, jute textiles, iron and steel and general engineering were dominant in terms of both value added and value of production. In terms of employment also the same industries were predominant. These industries covered 87 percent of the total value added and 86 percent of total employment. The average annual growth in industrial production was 5.7 percent in the period 1951-55 and 7.2 percent over the period 1955-60 (Table 9.1). The growth rates of production were marked for trends in: (i) since 1957 there had been a production shift towards metal, machinery and chemical industries; (ii) from the Second Five Year Plan onwards, the emphasis was on enhancing capacities in steel, aluminium, chemicals, fertilisers and petroleum products; and (iii) emphasis was also accorded during the second plan period to heavy electrical equipment, heavy foundry forge, heavy engineering machinery, etc. The allocation as a proportion of planned expenditure to these industries was 70 percent in the Second Plan and 80 percent in the Third Plan. Development in respect of oil exploration, coal and atomic energy was also undertaken in this period. The key role in industrial development in the Third Plan was assigned to the public sector with the aim making the economy selfsustaining in producers' goods industries such as steel, machine building, etc. so that the dependence on external assistance is reduced. Expansion of the production of consumer goods on a significant scale was proposed in the private sector. Thus, the high overall growth in industrial production witnessed during this phase could be attributed to the investments and outcomes in the basic and capital goods sector during the second and third plan periods.

Table 9.1: Growth in Industrial Production: 1951-1980 (%)

Use Based Classification	1951-55	1955-60	1960-65	1965-76	1974-79
1. Basic goods	4.7	12.1	10.4	6.5	8.4
2. Capital goods	9.8	13.1	19.6	2.6	5.7
3. Intermediate goods	7.8	6.3	6.9	3.0	4.3
4. Consumer goods	4.8	4.4	4.9	3.4	5.5
(a) Durables				6.2	6.8
(b) Non-durables				2.8	5.4
General Index	**5.7**	**7.2**	**9.0**	**4.1**	**6.1**

Source: S. L. Shetty, 1992.

9.4.2 Phase II: 1966-80

The period from 1965 to 1976 was marked for a sharp deceleration in industrial growth (from 9 percent during 1960-65 to 4.1 percent in 1965-76 (Table 9.1). The was marked by the phenomenon of 'structural retrogression' as evidenced by the performance of the most important group of goods from the long term point of view of industrial development viz. the capital goods industries. This group registered a consistent and considerable increase from 9.8 percent per annum in the First Plan to 13.1 percent in the Second Plan and to a further 19.6 percent in the Third Plan but slid down steeply to a low of 2.6 percent over 1965-76 and thereafter slightly improved to 5.7 percent during 1974-79. The various causes for this deceleration and retrogression were as follows.

1) **Exogenous Causes:** These were attributed to: (i) the two wars of 1965 and 1971; (ii) drought conditions in some years; (iii) infrastructural constraints and bottlenecks; and (iv) the oil crisis of 1973.

2) **Unsatisfactory Performance of the Agricultural Sector:** Low growth in the agricultural sector was also responsible for the slowdown of industrial sector by restricting the supply of raw materials on the one hand and by constraining the demand for industrial goods on the other hand.

3) **Slackening of Real Investment:** There was a considerable slackening of real investment particularly in Phase II in the public sector affecting the

growth in the industrial sector. In fact, not only was there a reduction of public investment but also private investment due to 'loss of stimulus' for investment.

4) **Income Distribution and the Demand Factor:** Due to extreme inequalities of income and wealth, the market for industrial goods was limited to the top 10 percent of the population. Thus, once the demand for this section of the population got saturated, not only the further expansion in demand was constrained but it also limited the demand for consumption goods. This, in turn, limited the demand for machinery and capital goods.

5) **Policy Constraints on Industrial Growth:** Wrong industrial policies, complex bureaucratic system of licensing, irrational and inefficient system of controls, etc. have also been identified as factors contributing to the above industrial deceleration.

9.4.3 Phase III: 1981-91

The third phase of industrial growth covers the period of eighties spanning over the two plan period of Sixth and Seventh. This is the period of 1980s which experienced industrial recovery. During the first half of this period viz. 1981-85, the average annual rate of growth of industrial production accelerated to 6.4 percent which further increased to 8.5 percent during 1985-90. The momentum was maintained in 1990-91 when the annual rate of industrial growth was 8.3 percent (Table 9.2). The capital goods industries recorded 6.2 percent annual rate of growth during 1980-85 which experienced a steep increase in its growth rate to 14.8 percent in 1985-90 and then further improved its performance to register 17.4 percent in 1990-91.

Table 9.2: Growth in Industrial Production during Eighties (%)

Use Based Classification	1981-85	1985-90	1990-91
1. Basic goods	8.7	7.4	3.8
2. Capital goods	6.2	14.8	17.4
3. Intermediate goods	6.0	6.4	6.1
4. Consumer goods	5.1	7.3	10.4
(a) Durables	14.3	11.6	14.8
(b) Non-durables	3.8	6.4	9.4
5. General Index	6.4	8.5	8.3

Source: Hand Book of Industrial Statistics, 1992.

The growth rate for consumer durable goods also was a high 14.3 percent in 1981-85 but slid down somewhat to 11.6 percent in 1985-90 but recovered to register a growth of 14.8 percent in 1990-91. The basic goods industries maintained the annual average growth rate of 8.7 and 7.4 percent during

1981-85 and 1985-90 respectively but steeply declined to 3.8 percent in 1990-91. The main factors identified as responsible for the industrial recovery during eighties are as follows.

1) **Introduction of New Industrial Policy and Liberal Fiscal Period:** Liberalisation of the industrial and trade policies by the government is the main factor responsible for the industrial recovery during 1980s. Domestic barriers to entry and expansion were reduced, facilities for better access to technology and intermediate material inputs were provided and a liberal fiscal regime also gave the required stimulus for recovery.

2) **Contribution of the Agricultural Sector:** Additional demand for industrial goods was generated due to the increased prosperity of farmers in certain regions of the country.

3) **Growth of Service Sector:** There was a significant increase in government spending on all services in the 1980s, particularly defence and public administration. As a result, consumer goods demand and hence their production increased pushing up the rate of industrial growth.

4) **The Infrastructure Factor:** There was a revival in investment in the infrastructural sector in the eighties. The availability of better infrastructure contributed to raising the degree of efficiency of the industrial sector.

9.4.4 Phase IV: Post-1991

Due to the balance of payments crisis in the 1990s, output dipped in 1991-92, but boomed for four years after that, peaking in 1995-96 (Table 9.3). This was followed by a steep deceleration for seven years until 2002-03. A second boom took place for another four years from 2003-04 to 2007-08. During the 19 years since 1991-92 (i.e. 1992-2010), consumer durables grew the fastest at 9.3 percent per year followed by capital goods at 8.1 percent per year. The Indian economy experienced a high growth in the service sector in the post reform period, the share of which rose from 44 percent of GDP in 1991-92 to 57 percent in 2009-10. During the same period, the share of the agricultural sector declined from 33 percent to 17 percent and that of the industrial sector increased modestly from 23 percent in 1991-92 to 26 percent in 2009-10.

Industrial growth which was very low in 1991-92 (less than 1 percent) started picking up from 1993-94 reaching a high of 13 percent in 1995-96 but then again declined to around 5.5 percent in 1998-2000. Notwithstanding these intermittent ups and downs, the overall growth of Indian industries over the 10-year period of 1995-2005 and the subsequent 7-year period of 2005-13 has been an uniform 6.8 percent growth average annual (Table 9.3). Among the factors identified as responsible for this 'less than the desired growth' are:

- Industrial growth did not take place as expected since the growth in the labour intensive industries did not increase and hence industrial employment and output remained the same.

- Due to lack of adequate infrastructure, export credit and unsuitable macroeconomic policy environment, India's exports were restricted to skill and technology-intensive products, although it possessed competitiveness to produce and export a large number of other products.

- Some of the other factors responsible for the decline in the industrial growth rate are: (i) decline in the growth of exports in 1997; (ii) tight money policy followed in 1995-96; and (iii) quick saturation of pent-up domestic demand.

Table 9.3: Growth of Industrial Production Post Liberalisation (%)

Use Based Classification	**1991-92 to 2000-01**	**2001-02 to 2009-10**	**1991-92 to 2009-10**
1. Basic goods	5.9	5.8	5.9
2. Capital goods	3.6	12.6	8.1
3. Intermediate goods	7.7	5.9	6.8
4. Consumer goods	5.7	8.0	6.8
(a) Durables	9.2	9.5	9.3
(b) Non-durables	4.8	7.6	6.2
General Index*	**6.8**	**6.8**	**-**

Source: RBI, 2012-13, p-80 and Bhat, T. P. (2013)

Note: * The two General Indices' growth rates are for the periods of 1995-05 (base 1993-94 = 100) and 2006-13 (base 2004-05 = 100) respectively.

Thus, the Indian manufacturing sector did not perform well as some other emerging economies mainly due to certain structural distortions. These distortions are: (i) problems with reallocation of labour across sectors; (ii) excessively small scale firms; (iii) low firm turnover, (iv) poor market orientation; (v) persistent state ownership; etc.

The reforms during the succeeding years have, however, increased the effective competition in the domestic market with easier imports and entry of new firms. There has been a decline in the relative price of capital goods making fixed investments more productive. This indicates that there has emerged a buyers' market in industrial goods with improved quality, variety and after-sales service of these goods. Production efficiency has increased which has helped in facing competition from China. The competitive pressure has spurred innovation and product development. The ability of Indian industries to acquire and manage factories and firms in developed economies in relatively advanced manufacturing industries shows their growing strength and stature.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What are the five broad categories in which the New Industrial Policy of 1991 specified its features?

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2) Which were the industrial groups that were retained for public sector production in the NIP of 1991? Which are the only three industries that are since left for public sector?

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3) State the three sets of reforms which broadly signify the NIP of 1991.

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4) What were the areas in which the First Phase of industrial development received a major thrust?

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5) What are the broad caused to which the deceleration of Indian industrial sector attributed in its second phase of development?

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6) To what factors the industrial recovery witnessed in the third phase of Indian industrial developed attributed?

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9.5 COMPETITION COMMISSION OF INDIA

The Competition Commission of India (CCI) was set up to replace the anachronistic Monopolies and Restrictive Trade Practices Commission (MRTPC). It was established to eliminate practices that adversely affected competition in different industries and thereby protect the interests of consumers. The Competition Act of 2002 was enacted to foster a spirit of competition for excellence by establishing a level playing field by transparent procedures and practices. The Act called for the creation of a Competition Commission of India (CCI). Established in 2003, it became fully functional only by 2009. The CCI is a quasi-judicial body with its specific function as follows:

- play the role of a market regulator to curb anti-competitive behaviour that may distort competition;
- prohibit the abuse of dominant position by an enterprise or group;
- regulate the Merger and Acquisitions that may cause adverse effect on competition; and
- create awareness and impart training on competition issues through advocacy.

In the seven years of its functioning, the CCI has made its presence felt in various industries as diverse as cement, automobiles, pharmaceuticals, real estate, and information technology-enabled services. The Government must also be given credit for not interfering in the functioning of the CCI given the high stakes involved in mergers and acquisitions. However, in several cases the legality of CCI orders has been questioned leading to a debate on the nature and objective of the quasi-judicial regulator. The Competition Appellate Tribunal (COMPAT) has struck down several CCI orders mainly for violation of the principle of natural justice that provides everyone a fair hearing before law. There are also concerns regarding validity of CCI as it may infringe upon the functional domain of other sector specific regulators like the RBI and SEBI.

Future challenges before the CCI includes streamlining its processes to reduce the time taken to clear merger filings. Initially, it took less than 30 days, but because of the increasing number of applications, the time taken has doubled. Since the CCI is being seen as a hurdle in doing business in India, it has to establish itself as its role is to promote fair competition in the market.

9.6 LET US SUM UP

Since the inception of planning several industrial and trade policy reforms have been introduced aimed at making the Indian industries more competitive internationally. A number of industries have acquired the technical expertise needed to set up and operate firms worldwide. These industries have further gained access to superior technology abroad enabling them to enhance their domestic capabilities. However, the industrial sector has not been able to generate employment as many of these industries are not labour intensive. A notable feature of industrial growth has been 'a faster decline in the share of agriculture in the GDP compared to the earlier decades' and a steep 'increase in the corresponding share of the services sector'. Post liberalisation, many restrictions on the industries have been done away with. As a result, the economy has been opened up to make the industries more competitive. Thus, the industrial sector has been evolving and adapting to the changes within the economy as well as internationally.

9.7 KEY WORDS

Industrial Policy Resolution : These are policy documents issued from time to time to streamline the growth of the Indian industries in a desired direction. The policies have aimed at developing a strong public sector base for capital goods production and encouraging the private sector to gain excellence in the consumer goods segment in the private sector.

Competition Commission of India : A post-liberalisation institutional arrangement to foster healthy competitive environment for the industries by establishing a level playing field with transparent policies and practices and especially to curb anti-competitive practices.

9.8 SOME USEFUL BOOKS AND REFERENCES

1) Bhagwati, J and Desai, P (1970). India: Industrialisation. Oxford University Press, Delhi.

2) Ghosh, A, (1980). Indian Economy, Calcutta World Press Private Limited.

3) RBI (2013). Handbook of Statistics on the Indian Economy, 2012-13.

4) Shetty, S. L. (1978). Structural Retrogression in the Indian Economy since the Mid-Sixties, Economic and Political Weekly.

5) Thakur, B, Gupta, R. & Singh, R. (2012). Changing Face of India's Industrial Policies: A Look, International Journal of Scientific and Research Publications, Volume 2, Issue 12.

6) Bhat T. P. (2013). Growth and Structural Change in Indian Industries, Institute for Studies in Industrial Development (ISID), 2013/2.

9.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Division of Industries, role of foreign capital, cottage and SSIs, labour policy.
2) Completion of First FYP, enactment of IDRA (1951) and adoption of 'socialistic pattern of society' as the goal.
3) Because they were apprehensive of the major role assigned to the public sector.
4) That the process of financing sick units could not go on indefinitely.
5) Effective operational management of public sector, promotion of economic federalism, etc.
6) No, as industries did not disperse to the backward areas but remained concentrated in the developed regions.

Check Your Progress 2

1) Policy of industrial licensing, policy on public sector, etc.
2) Alcoholic drinks, cigars, aerospace, industrial explosives and hazardous chemicals.
3) 4 D's: deregulation, decontrol, etc., restricted government interference, facilitation of FDI inflows.
4) Basic capital goods in the public sector.
5) Exogenous causes, poor performance of agricultural sector, etc.
6) Introduction of NIP and liberal fiscal regime, etc.

UNIT 10 SMALL SCALE INDUSTRIES*

Structure

10.0 OBJECTIVES

After reading this unit, you will be able to:

- define small scale industries (SSIs);
- outline the classificatory framework for the SSIs in India;
- explain the theoretical rationale for the promotion of SSIs;
- discuss the policy initiatives to promote the SSIs in India;
- analyse the growth and performance of SSIs;
- examine the policies and programmes to remove the disabilities of the SSIs;
- describe the changes in the SSI sector in the MSMED Act of 2006; and
- outline the steps being taken to assist the 'small and tiny enterprises' segment of the SSI sector in the New Industrial Policy of 2017.

10.1 INTRODUCTION

As noted in Unit 9 before, both the IPRs launched immediately after independence (i.e. IPRs 1948 and 1956) recognised the importance of

* Ms. Aparajita, Research Scholar, Calcutta University

promoting SSIs in India. Even the subsequent two policies (viz. of 1977 and 1980) reiterated this need. As a result, the Indian small scale industry (SSI) sector had grown impressively since independence with ample protection from the government and the various sponsoring agencies within the broad guidelines of the Industrial Policy Resolutions. Promotional policies relating to information, consultancy, entrepreneurship development, training, modernisation and technology support, industrial estates, raw materials, marketing, finance, reservation, ancillary development, quality control, etc. have been consistently provided for the sector. Special schemes of assistance have been launched for 'women entrepreneurs'. Vast institutional set-ups, by way of Small Industries Development Corporation (SIDC), have been established and are assisted by the IDBI in respect of marketing, supply of essential raw materials, machinery on hire purchase basis, establishing industrial estates, etc. Concessional rates of excise duties and simplifying procedures are among the other forms of assistance extended to the SSI sector.

The share of 'micro, small and medium enterprises' (MSME) to manufacturing output is at present 45 percent. Its contribution to the total exports of the country is 40 percent. It employs about 69 million in a total number of units also estimated at 69 million. The employment of 69 million is from both the registered and unregistered units taken together.

10.2 CLASSIFICATION OF SSIs IN INDIA

In India, the SSIs are classified into traditional and modern units. The former includes: (i) khadi; (ii) handlooms; (iii) village industries; (iv) handicrafts; (v) sericulture; and (vi) coir. These are basically labour-intensive whereas the latter (i.e. modern units) includes wide ranging and sophisticated products like electronic and engineering goods. Another distinctive feature of these two type of classification is on the basis of their 'employment criteria' i.e. the characteristic of 'hired labour' in the units. While the former are basically carried out by family labour (hence also called as Own Account Enterprises), the modern units usually employ 'hired labour'. The modern units serve as ancillary industries to large scale establishments which use capital intensive technology.

Another classificatory framework for the SSIs is based on the investment made in plant and machineries (P & M) i.e. the 'investment criteria'. This definition is thus prone to changes over time since the ceiling on investment has to be revised from time to time owing to changes in prices. Table 10.1 gives a profile on this definition of SSIs over a period spanning three and a half decades. As per this classification, a separate category of 'ancillary units' was specified with a slightly higher ceiling on investment in P & M. This distinction in the higher limit set for ancillary unit than a 'small scale unit' sets the former apart as units with a higher technological capacity feeding into the large scale sector. In 2006, the Government reclassified the SSI units into three categories viz. (i) tiny enterprises (with investment of up to Rs. 25 lakhs); (ii) small enterprises (with investment between 25 lakhs and 5 crores); and (iii) medium enterprises (with investment between 5 crores and 10 crores). It also brought into force a new Act called the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006'. The Act envisaged the growth of small units over time so that they can grow into medium units. It is significant to note that the 'tiny enterprise sector' provides employment to 92 percent of entire employment in the SSI sector.

Table 10.1: Investment Limits (Rs) in SSIs

Year	Small Scale Unit	Ancillary Unit
1966	7.5 lakhs	10 lakhs
1975	10 lakhs	20 lakhs
1980	20 lakhs	25 lakhs
1985	35 lakhs	45 lakhs
1990	60 lakhs	75 lakhs
1997	3 crores	3crores
2000	1 crore	1 crore

Source: Ministry of MSME.

The traditional industries, operated mostly as OAEs, cannot provide full time employment to workers. Such enterprises could only provide part time employment to one or two agricultural labourers and artisans who were mostly underemployed and living below the poverty line. However, handicraft industries (an important segment of traditional industries) provide maximum labour productivity besides earning considerable foreign exchange. Modern industries, on the other hand, provide better employment opportunities both in terms of income and stability. In light of this, both the traditional industries and the modern small scale units need to be encouraged both for the sake of their employment potential as also their traditional value linked to export or foreign exchange dimension.

10.3 RATIONALE FOR PROMOTION OF SSIs

Theoretically, the rationale for the promotion of SSIs comes from the concept of economic dualism (i.e. a large informal sector and a small formal sector) closely associated with labour surplus economies. Typically, in such economies, there exists in some sectors a large supply of unskilled labour working in conditions of low capital, low technology and low wages. In such sectors, labour markets do not clear i.e. wage is not equated to marginal product or labours' remuneration will be below the subsistence level of consumption. In other words, a good part of the labour force works at low levels of labour productivity contributing to output lower than the efficiency levels. If such 'surplus labour' can be reallocated to other sectors of the economy, then it will reduce the inefficiency in the system. However, the classical two-sector growth model assumes that the agricultural sector produces such goods for which the consumer demand from the non-agricultural sector does not grow as rapidly as their income. Hence, with the growth of the economy, the importance of the agricultural sector declines both in its contribution to output and in employment generation. And, as growth picks up, the industrial sector expands rapidly aided by investment and capital accumulation. Consequently, surplus labour from the agricultural sector is reallocated to industry. When the entire surplus labour is absorbed i.e. once growth reaches this important turning point, real wages begin to move upward and the industrial sector starts assuming a capital-intensive character.

In reality, however, the growth experience of most less developed countries have not conformed to the above mentioned growth path although a preference for capital intensity is seen in most developing countries regardless of which stage of development they are in. Even in countries (i.e. those developing economies) where the industrial sector has expanded rapidly, it has not been able to absorb the entire surplus labour force from agriculture. This is due to the inherent bias for capital-intensive technology leading to low absorption of surplus labour from agriculture mainly largely unskilled. Such a situation cannot therefore be completely explained by the classical two-sector growth model in which there is little importance for the small-scale sector. Ho and Huddle (year) provide an alternative explanation to development for such economies in their transition in which the potential role of the small-scale and traditional industries is recognised. They believe that given the particular characteristics of the SSIs, they can contribute significantly by absorption of surplus labour and thereby reduce the inequality in the distribution of gains. Thus, in the model proposed by Ho and Huddle, surplus labour released by agriculture is absorbed by the small-scale sector reducing the reallocation cost of labour. Further, most enterprises of the small-scale sector drawing their resource base from the agro products would have a rural base. Thus, the development of the small-scale sector contributes to complement the process of transformation in the developing countries. In particular, the small scale sector can make significant contributions in terms of the following.

1) **Employment Creation:** In the developing countries, the growth of large-scale industries are mostly capital intensive with low employment generation to the unskilled. Since the small-scale sector is not as capital-intensive as the large scale sector, it has higher employment content. In other words, more employment would be created for a given amount of investment in the small-scale sector than in the large scale sector. However, the small-scale sector has relatively low value added per worker and low wage rates. But with large surplus labour to be absorbed, even the low wage rates in SSIs would be higher than the possible

earnings in the agricultural rural economy. Thus, the small-scale sector can act as a conduit by providing productive employment to a large rural population helping in the distribution of the gains from development over a broader base.

2) **Balance in Geographic Distribution:** In developing countries, the geographical distribution of economic activities is uneven resulting in regional inequality in income distribution. This causes migration of labour from backward regions to the relatively developed regions. Empirical evidence shows that the absorption of migratory labour in the industries has typically been low relative to the magnitude of migration and thereby the growth in the labour force. Moreover, it is the young and the more educated who migrate leaving behind a poor quality of labour force in rural areas. Rural poverty and stagnation are thus the consequences of such regional imbalance. A diversified geographical and industrial structure, as a result of the SSI sector's expansion, can therefore provide a solution to the problem. In other words, the small-scale sector can serve to moderate the destabilising effect by balancing the uneven distribution of employment opportunities in the economy.

3) **Trade and Export Potential:** As per the neoclassical theory of comparative advantage, industrial and manufactured goods flow from the developed countries to the developing ones, and that of agricultural products from the developing countries to the developed ones. Such a pattern of trade leads to exploitative benefits for the developed countries at the cost of the developing nations. In such a scenario, a promising avenue for growth can be the expansion of exports of light manufactured goods produced by the labour-intensive small-scale sector, particularly for goods with a distinctive cultural character like the handicrafts.

10.3.1 Policy Initiatives

In line with the above rationale, the IPR, 1956 put forth four specific arguments in support of promotion of SSIs. These are:

1) **The Employment Argument:** Excepting in the sectors of capital goods industries, small enterprises would help to enlarge the volume of employment as they are supposedly labour-intensive. An implicit argument here is that employment should not be created for the sake of employment and utilisation of scarce resources productively should be the prime objective.

2) **The Equality Argument:** Small enterprises bring about greater equality of income distribution as the income benefit is derived by not only a large population but also the population who need income the most. A counter argument is that, small enterprises by paying lower wages generate less savings and less taxes and hence result in lower growth potential.

3) **The Latent Resource Argument:** Small enterprises are able to tap latent resources like hoarded wealth, entrepreneurial ability, etc. The counter argument is that mobilisation of hoarded wealth is only a onetime gain.

4) **The Decentralisation Argument:** In order to benefit from modern industrialisation, such units must be encouraged to come up in smaller towns and the countryside. For this, a group of villages can be selected to start small enterprises to cater to the needs of the small area from the local centre. Such an approach would decentralise the benefits of development generating non-farm employment avenues in the rural areas.

The following factors can therefore be reiterated to provide the ideological rationale for the promotion of SSIs in India:

1) **Decentralised Growth:** Promotion of cottage and small industry helps to re-organise the socio-economic structure on a decentralised basis with a focus on the development of village level communities.

2) **Relief Oriented:** The idea of welfare state and employment potential combined with the motive of aiding income generation is behind this factor.

3) **Economic:** In a country where capital-labour ratio is low, economy should be exercised in the use of capital. The objective here is therefore to maximise the utilisation of labour, generate income to the employed, and minimise the capital to income ratio.

4) **Diversification of Entrepreneurial Base:** The policy of fostering entrepreneurs from amongst the members of different castes, classes and professions who have not had the opportunity to contribute to entrepreneurship in India (e.g. the scheduled caste, scheduled tribes, backward classes, poor classes, even technicians and other professionals) is itself a noble objective both to diversify the industrial base as also to harness on inherent and untapped entrepreneurial abilities.

Finally, the output-employment ratio for the small scale sector being 1 : 1.4, the growth of the SSI sector carries the potential to improve the growth in the non-durable mass consumption products, acting as an anti-inflationary force. A big push in the small scale sector can therefore result in a stabilising effect in a capital scarce country like India by providing higher 'output to capital' and higher 'employment to capital' ratios. The capacity utilisation in most of the small scale industries being very low, the untapped capacity provides scope for productive expansion of the sector.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What are the six constituents of the traditional SSI sector? In which particular respect, are they distinguishable from their 'modern units' counterpart?

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2) What are the two criteria on the basis of which the SSIs are classified? What are OAEs and in what way are they different from the bigger SSI units?

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3) What is the reclassification made by the government in 2006 and what is its particular feature that makes it different from the earlier classificatory framework?

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4) What feature of the 'handicrafts sector' and the 'modern industries sector' makes it important to promote both simultaneously in India?

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5) State the four broad grounds on which the IPR, 1956 argued in support of the promotion of SSIs. In particular, identify the argument to indicate how the non-farm employment avenues is expanded by its attention.

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6) Do you agree that the promotion of small scale sector acts as an anti-inflationary force? How?

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10.4 GROWTH AND PERFORMANCE OF SSIs

The SSI sector in India, has played a very important role in the Indian economy. It had grown tremendously over the years contributing to output and employment growth. The number of registered units have steadily increased from 16,000 in 1950 to 36,000 in 1961 and to 33.7 lakhs in 2001. In 2013-14, the number of units stood at 499.5 lakhs. The Ministry of MSMEs, Government of India, collects data on 'registered units' based on census and for 'unregistered units' based on sample survey. The first SSI Census was conducted in 1972-73, followed by the second Census in 1987-88. The third Census was carried out in 2001-02 and the fourth Census in 2006-07 (the last after the enactment of MSMED Act).

Initially, the government followed a policy of reservation of items which were to be produced in the small scale sector only. There were 177 items in the reserved list in 1972 which went up to 837 in 1983. Later, however, the government started de-reserving items from 1991 onwards. As a result, in 2007, the number of items in the reserved list stood at 239.

The growth of SSI units and their performance in respect of employment, output and exports (in the pre-liberalisation and liberalisation periods – up to 2006/07) is presented in Table 10.2. In terms of units and employment, the growth rate of SSI has declined on average between the two periods but in terms of output and exports there is a marginal improvement. The growth of SSI units first declined in the 1980s as compared to the 1970s. It declined further in the 1990s but remained more or less constant in the 2000s *except in terms of output* in which there was a steep increase. Such steep increase in output can be attributed to the low base effect in the 1990s. The factors behind this poor performance in the 2000s are identified as follows.

Table 10.2: Growth of SSI Units

Period	Growth rate (%)			
	Units	Employment	Output	Exports
Pre-liberalisation (1973/74 to 1989/90)	9.7	7.1	3.7	12.1
Liberalisation (1990/91-2006/07)	4.1	4.3	4.3	12.6
1970s	11.2	8.7	3.4	14.0
1980s	8.5	6.0	3.9	10.7
1990s	4.6	4.2	0.1	12.9
2000s	4.6	4.6	11.8	12.2

Source: Ministry of MSME.

- First, due to the threat of competition, new SSI units did not come up in the liberalisation period in comparison to the pre-liberalisation period. This adversely affected employment generation.
- Second, the units that came up in the liberalisation period were more capital-intensive than those in the earlier periods leading to lower employment generation. Further, technological up-gradation and modernisation by the existing units also led to reduced demand for labour.
- Third, SSI units which were lacking in infrastructural facilities and were unable to become competitive became sick and withdrew from the market pushing the output and employment down.

10.4.1 Policies and Programmes to Remove Disabilities

As noted above, many of the small scale industries have closed down over the years. The reasons for their closure, rounded to nearest integer, broadly fall under three heads viz. financial problems (35 percent), marketing difficulties (14 percent) and non-availability of raw materials (6 percent). The measures to counter the problem may therefore be grouped under the following.

1) **Credit and Finance:** Banks do not want to advance credit to the SSIs because the latter are not always in a position to repay. The internal resources of SSIs are so meagre that they cannot sustain on it, in times of business slowdown. The evolution of an integrated credit system is needed whereby long-term capital and short-term credit are adequately provided at a reasonable rate of interest.

2) **Marketing Assistance:** The products of SSIs being non-standardised and of variable quality, are often hard to market. The government has a task to provide required assistance to bring producers and dealers into close contact so that imperfection is eliminated.

3) **Allocation of Raw Materials, Imported Components and Equipment:** It is observed that the SSIs have not proportionately received a fair share of supply of raw materials. The Government has, therefore, started giving priority in raw materials allocation to the small scale sector.

4) **Technical Assistance:** SSI development is often hampered due to low level of technology and shortage of trained and experienced personnel. Provision of technical service is essential to stimulate increased productive efficiency. Encouraging new product lines is another need as the small scale sector lacks in that.

5) **Industrial Estates:** Industrial estates like provision of good accommodation and other basic facilities on a rental basis to those entrepreneurs who are unable to do afford are needed to establish a level playing field among the different economic class of entrepreneurs.

The liberalisation policy has paved ways for large industries to enter the sector reserved for SSI units. The approach to the 11th plan (2007-12) suggested total de-reservation of items reserved for SSIs.

10.5 MSMED ACT, 2006

Within the small scale sector, till 2000, there were classification only for small scale units and tiny units. No classification for medium scale enterprises were there. In 2006, an Act named 'Micro, Small and Medium Enterprises Development (MSMED) Act' came into force whereby the growth of small enterprises were facilitated so that they could graduate into medium enterprises thus improving their competitive strength. The MSMED Act is a watershed in the sector of small industries as they now get much more benefits than before under the purview of the Act. Since 2006-07, the name of the Ministry of Small Scale Industries is changed as Ministry of Micro, Small and Medium Enterprises. The service sector enterprises working at small scale are also included in the MSME sector. In the latest Annual Report of the Ministry, composite figures are given. The 4th census of MSME has estimated that 67 percent of MSME are manufacturing units and 33 percent are service enterprises.

10.5.1 Classification

As per the MSMED Act (2006), units are classified as: (i) Manufacturing Enterprises; and (ii) Service Enterprises. Manufacturing Enterprises are defined in terms of investment in 'Plant and Machinery' and the Service Enterprises are defined in terms of investment in 'tools and equipment'. In case of the manufacturing enterprises, investment in plant and machinery refers to the original cost excluding land and building.

Table 10.3: Investment Limits Under MSMED Act

Manufacturing Sector/Enterprises	
Enterprises	**Investment in Plants & Machinery (in Rs.)**
Micro and Tiny Enterprises	Less than 25 lakh
Small Enterprises	25 lakhs to 5 crores
Medium Enterprises	5 crore rupees to 10 crore
Service Sector/Enterprises	
Enterprises	**Investment in Equipments (in Rs.)**
Micro Enterprises	Less than 10 lakh
Small Enterprises	10 lakh to 2 crores
Medium Enterprises	2 crores to 5 crores

Source: Ministry of MSME.

10.5.2 Benefits

The benefits offered to the MSMEs are as follows.

1) The major benefit for MSMEs is the reservation of certain items, for the exclusive manufacture by these enterprises. This protects their interests providing impetus for generating employment. As many as 350 items are reserved for purchase from MSMEs under the Government Stores Purchase Programme.

2) The SEZs are required to allocate 10 percent space for the small-scale units.

3) Protections is offered for timely payment by the buyers to the MSMEs.

4) There are also policies for preferential access to credit and purchase policy. These are offered as packages of schemes and incentives through specialised institutions in the form of assistance in obtaining finance, help in marketing, technical guidance, training and technology up-gradation, etc.

5) An enterprise whose 'post-issue face value' does not exceed Rs. 25 crores is entitled to certain exemptions from the eligibility requirements under the ICDR (issue of capital disclosure requirement) Regulation.

Items exclusively reserved for production by MSMEs include: pickles and chutneys, bread, mustard oil, ground nut oil, exercise books and registers, wooden furniture and fixtures, candles, laundry soap, safety matches, fireworks, agarbattis, glass bangles, steel almirahs and stainless steel and aluminium utensils. They can also be manufactured by Large/Medium units provided they undertake to export a minimum of 50 percent of the annual production. Such exports are to be made within a maximum period of three years from the date of commencement of commercial production of such reserved items.

10.5.3 Priority Lending Sector

The MSME sector now has greater access to credit as a result of its classification as a priority lending sector. Banks are required to compulsorily ensure that specified percentage (currently 40 per cent of net bank credit for domestic commercial banks and 32 percent for foreign banks) of their overall lending is made to priority sectors, like agriculture, small enterprises, retail trade, etc. Public sector banks are advised to open at least one specialised branch in each district for this purpose. A '*cluster based approach*' to lending is provisioned to provide comprehensive service so as to cater to the diverse needs of the MSME sector. Such an approach is helpful in *risk sharing* as the strengths of well performing units stabilises the overall performance of the cluster to an extent. The approach is, however, aimed at achieving extended banking services to recognised MSME clusters. Banks are especially advised to open MSME focussed branch offices at different MSME clusters to act as counselling centres for MSMEs. Each lead bank of the district is advised to adopt at least one MSME cluster.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the three factors responsible for the low performance of SSI units during the 1980s and 1990s as compared to the 1970s.

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2) Over the period of 2000s, as compared to the 1990s, do you agree that there has been a near stagnancy in the growth of SSIs? Give reasons for your answer.

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3) Among the reasons for the low performance of SSIs in 1980s and 1990s over that in 1970s, which are the three factor that accounted for it in a major way (i.e. accounting for more than 50 percent of all the factors)?

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4) In which respect, the MSMED Act, 2006, made a new provision to improve the competitive strength of MSME units?

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5) What are the benefits extended to the MSME units under the new MSMED Act?

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6) In what way the 'cluster based approach' to lending is more beneficial to the MSME units?

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10.6 INDUSTRIAL POLICY FOR SMALL AND TINY ENTERPRISES, 2017

A separate package for the promotion of 'Micro and Tiny Enterprises' is introduced in 2017. While the small scale sector (other than 'Tiny Enterprises') would be mainly entitled to one-time benefits (e.g. preference in land allocation, power connection, access to facilities for skill/technology upgradation, etc.), the 'tiny enterprises' would be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the government purchase programme and relaxation from certain provisions of labour laws. Some of the areas in which renewed efforts are made are the following.

Measures for Financial Support: Emphasis for credit access would henceforth be shifted from subsidised/cheap credit to ensuring adequate flow of credit with quality of delivery particularly for the viable operations/units of this sector. For this, a special monitoring agency would be set up to oversee that the genuine credit needs are fully met. Further, to provide access to the capital market and to encourage modernisation and technological upgradation, equity participation will be allowed by other industrial undertakings in the MSME sector. Such participation shall be limited to 24 percent of total shareholding. To solve the problem of 'delayed payments' to small industries, a suitable legislation is proposed to be introduced to ensure prompt payment of Small Industries' bills.

Infrastructural Facilities: To facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new Scheme of Integrated Infrastructural Development for Small Scale Industries is proposed to be launched with the active participation of state governments and financial institutions. A Technology Development Cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) to provide inputs for improving productivity and competitiveness of the products of the small scale sector. Adequate and equitable distribution of indigenous and imported raw materials would also be ensured to the small scale sector, particularly the tiny sub-sector. An adequate arrangement for delivery of total package of incentives and services (at the district level) will be evolved and implemented.

Marketing and Exports: In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Marketing support would therefore be provided with market promotion undertaken by cooperative/public sector institutions and specialised/professional marketing agencies. Further, the National Small Industries Corporation (NSIC) would help in marketing of mass consumption items under a common brand name with organic links between NSIC and 'micro, small and medium enterprises development councils' (MSMEDCs). Though the Small Scale Sector is making significant contribution to total exports (both direct and indirect), a large potential remains untapped. An Export Development Centre would be set up in SIDO to serve the MSMEs through its network of field offices for augmenting the export activities.

Modernisation, Technology and Quality Upgradation: A greater degree of awareness to produce goods and services conforming to national and international standards would be created among the small scale sector.

Industry Associations would be encouraged and supported to establish quality counselling and common testing facilities. Technology Information Centres would be established to provide updated knowledge on technology and markets. Where non-conformity with quality and standards involves risk to human life and public health, compulsory quality control would be enforced. A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges will be associated to serve as Technological Information, Design and Development Centres in their respective command areas.

Promotion of Entrepreneurship: Government will continue to support first generation entrepreneurs through the Entrepreneurship Development Programmes (EDP). Industry Associations would be encouraged to participate in this as a collaborative venture. EDP would also be built into the curricula of vocational and other degree level courses. Women entrepreneurs will receive support through special training programme.

Simplification of Rules and Procedures: The persistent complaint of small scale units of being subjected to a large number of Acts and Laws (requiring to maintain a number of registers and submission of returns), and face an army of inspectors, would be addressed. Procedures would be simplified and bureaucratic controls reduced. Paper work would be cut down to the minimum to enable the entrepreneurs to focus on production and marketing functions.

Village Industries: Schemes for the ‘handloom sector’ will be redesigned keeping in mind the local and regional needs. Constraints of coverage will be removed to include bulk of the weavers who are outside the corporate/cooperative fold. Existing schemes will be re-drawn and suitably revised under three major heads: (i) Project Package Scheme; (ii) Welfare Package Scheme; and (iii) Organisation Development Package. For improving the marketing of handloom products, implementation of schemes for design and product improvement by national level publicity, exhibitions, and design exercise will be undertaken.

In the ‘handicrafts sector’, efforts will be made not only to preserve the traditional richness of the crafts but also to engage the hereditary skills of the craftsmen to suit modern requirements. Emphasis will be given on: (i) extension of services like supply of raw materials; (ii) design and technical guidance; (iii) market support; (iv) training and procuring of related materials/inputs in an integrated and area-based manner; etc.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) How are the 'Micro and Tiny Enterprises' brought under a distinctly different policy focus under the 'New Industrial Policy for Small and Tiny Enterprises, 2017'?

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2) What are the major departures in the 'measures for financial support' envisaged in the 2017's New Industrial Policy for the MSME sector?

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3) In what respects, the promotion of entrepreneurship proposed to be given a new thrust in the New Industrial Policy for MSMEs, 2017?

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10.7 LET US SUM UP

The MSME sector of India, along with the agricultural sector has consistently been the backbone of the Indian economy. Besides providing employment to nearly 12 million people, production and export from this sector are also substantial. Many low income people consume the products of these industries only. The government has provided consistent support and protection to the small industries sector (or the MSME sector) as a matter of policy since independence. The Industrial Policy of 1991 tried to lift the protection of the small scale sector, but revised it stand later after seeing the distress it caused to many poor persons dependent on this sector for their livelihood. The MSME Act of 2006 has tried to infuse renewed vigour into the sector.

10.8 KEY WORDS

SSI Sector : Consists of both registered and unregistered enterprises spanning over the traditional and modern units. A large part of the unregistered traditional sector, accounting for nearly 92 percent of total employment, belongs to the 'small and tiny' segment of the larger SSI sector. This segment functions mostly on family labour and are hence also called as OAEs (own account enterprises).

MSMEs : A new nomenclature given to the earlier SSI sector in 2006 in which a new distinction of 'medium enterprises' is accorded. The idea behind this reclassification is to provide renewed comprehensive support for meeting all their needs, from credit to technological upgradation and marketing, thereby making them more competitive to graduate from the 'small sector' segment to the 'medium sector' segment.

10.9 SOME USEFUL BOOKS AND REFERENCES

1) Kapila, U (2014-15). Indian Economy Since Independence, Academic Foundation, New Delhi.

2) Gaurav Dutt and Ashwani Mahajan (ed.), Indian Economy (2012). Dutt and Sundharam, S. Chand and Company Ltd, New Delhi.

10.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Khadi, handlooms, handicrafts, etc. By being labour intensive.

2) Employment criteria and investment criteria. Enterprises carried out entirely by family labour (i.e. 'nil' hired labour) are designated as OAEs.

3) Tiny, small and medium enterprises. The separate category of 'ancillary units' is specified with a slightly higher ceiling on investment in P & M.

4) For the sake of their employment potential as also their traditional value linked to export or foreign exchange dimension.

5) The four arguments are of: employment, equality, latent resource and decentralisation.

6) Yes: due to its output to employment ratio being favourable to employment.

Check Your Progress 2

1) Threat of competition, lower employment intensity in the units that came up during this period and lack of infrastructural facilities for the SSI units.

2) It remained more or less constant in the 2000s except in terms of output. Such steep increase in output is attributed to the low base effect in the 1990s.

3) Financial, marketing and non-availability of raw materials.

4) Introduction of an intermediate class for 'medium scale enterprises'.

5) Reservation of items, allocation of space in SEZs, protection offered for timely payment, etc..

6) By providing comprehensive service to cater to the diverse needs of the MSME sector.

Check Your Progress 3

1) The 'tiny enterprises' are made eligible for additional support on a continuing basis.

2) Shift from subsidised/cheap credit to ensuring adequate flow of credit with quality of delivery, extending access to the capital market, etc.

3) Promotion of first generation entrepreneurs through EDP, collaborative venture with industry associations and special training program for women.