

UNIT 164 – UPSC - Government Policies for Development and Promotion of Small-Scale Industries in India

In India, Small-scale enterprises have been given an important place for both ideological and economic reasons. It is well documented that the small scale industries have an important role in the development of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. Government's approach and intention towards industries in general and SSIs in particular are revealed in Industrial policy Resolutions. There are many Government Policies for development and promotion of Small-Scale Industries in India. These are mentioned as below:

1. Industrial Policy Resolution (IPR) 1948
2. Industrial Policy Resolution (IPR) 1956
3. Industrial Policy Resolution (IPR) 1977
4. Industrial Policy Resolution (IPR) 1980
5. Industrial Policy Resolution (IPR) 1990



1. Industrial Policy Resolution (IPR) 1948: The IPR, 1948 acknowledged the importance of small-scale industries in the overall industrial development of the country. It was well understood that small-scale industries are mainly suited for the utilization of local resources and for creation of employment opportunities. However, they have to face severe problems of raw materials, capital, skilled labour, marketing since a long period of time (B.narayan, 1999). Therefore, government put more emphasis on the IPR, 1948 so that these problems of small-scale enterprises should be solved by the Central Government with the cooperation of the State Governments. It can be established that the main drive of IPR 1948, as far as small-scale enterprises were concerned, was 'safeguard'. The IPR of 1948 indicated that "Cottage and small scale industries have a very important role in the national economy. Offering as they do scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for

the better utilization of local resources and for the achievement of the local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements" (Industrial Policy Resolution, 1948).

The IPR of 1948 revealed the emergence of a dualistic approach in government policy i.e. emphasis on both traditional and modern small scale sector. This approach has continued to form the basis of industrial policy towards the small scale sector ever since. The industrial Development and Regulation Act, 1951 which was transmitted in order to provide the organizational support to IPR of 1948 provide scope for a synchronized development of cottage and small scale industries within the general framework of large scale development programmes.

2. Industrial Policy Resolution (IPR) 1956: This policy was first comprehensive statement on industrial development of India. The 1956 policy continued to constitute the basic economic policy for a long time. This fact has been confirmed in all the Five-Year Plans of India (B.narayan, 1999). According to this Resolution, the objective of the social and economic policy in India was the establishment of a socialistic pattern of civilization. It provided more powers to the governmental mechanism. It laid down three categories of industries which are mentioned below:

I. Schedule A - Those industries which were to be an exclusive responsibility of the state.
 II. Schedule B - Those which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state.
 III. Schedule C - All the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector.

The main contribution of the IPR 1948 was that it set in the nature and pattern of industrial development in the country. The post-IPR 1948 period was marked by substantial developments taken place in the country. For example, planning has proceeded on an organised manner and the First Five Year Plan 1951-56 had been completed. Industries (Development and Regulation) Act, 1951 was also announced to legalise and control industries in the country. The parliament had also acknowledged 'the socialist pattern of society' as the basic objective of social and economic policy during this period. It was this background that the declaration of a new industrial policy resolution appeared essential. This came in the form of IPR 1956. The IPR has aim to guarantee that decentralised sector acquires sufficient vitality to self-supporting and its development is incorporated with that of large-scale industry in the country. Besides, the Small-Scale Industries Board (SSIB) established a working group in 1959 to scrutinize and formulate a development plan for small-scale industries during the, Third Five Year Plan, 1961-66. In the Third Five Year Plan period, specific developmental projects like 'Rural Industries Projects' and 'Industrial Estates Projects' were started to support the small-scale sector in the nation. The IPR 1956 for small-scale industries intended at 'Protection plus Development.' In a way, the IPR 1956 started the modern SSI in India.

It was documented that in 1955, Planning Commission setup a Committee on village and small scale industries popularly known as Karve Committee. The Committee suggested some important measures like:

I. Reservation of certain items only for village and small scale industries.
 II. Restriction of capacity expansion of large industry.
 III. Management of supply of raw materials.

IV. A scheme of concessions and benefits to small producers. The IPR of 1956 advocated the policy of protection as endorsed by Karve Committee to improve economic feasibility and competitive power of small scale industries. This policy stated that "The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy is to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry. The State, therefore, concentrates on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and the pace of transformation being regulated so as to avoid as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good to these deficiencies. The extension of rural electrification, and the availability of power at prices, which the workers can afford, will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives. Such cooperatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry" (Industrial Policy Resolution, 1956). Main emphasis of this policy is to support to cottage, village and small industries by differential taxation or direct grants in the form of financial assistance to improve and modernize the techniques of production and competitive strength of SSIs.

3. Industrial Policy Resolution (IPR) 1977: This policy was announced by Janata Dal in 1977. During the two decades after the IPR 1956, the economy countersigned uneven industrial development skewed in favour of large and medium sector, on the one hand, and increase in joblessness, on the other. This situation led to a transformed emphasis on industrial policy. This gave advent to IPR 1977. This policy supported the development of small scale and cottage industries as a remedy to common problem of unemployment and regional dissimilarities in industrial development (B.narayan, 1999). This policy proclaimed that "The main thrust of the new Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced" (Industrial Policy Resolution, 1977). The important attributes of the IPR were:

1. 504 items were reserved for exclusive production in the small-scale industries.
2. The concept of District Industries Centres (DICs) was introduced so that in each district a single agency could meet all the requirements of SSIs under one roof.
3. Technological up gradation was emphasized in traditional sector.
4. Special marketing arrangements through the provision of services, such as, product standardization, quality control, market survey, were laid down.

The IPR 1977 grouped small sector into three broad categories:

1. Cottage and Household Industries which provide self-employment on a large scale.
2. Tiny sector incorporating investment in industrial units in plant and machinery up to Rs.one lakh and situated in towns with a population of less than 50,000 according to 1971 Census.

3. Small-scale industries comprising of industrial units with an investment of up to Rs.10 lakhs and in case of ancillary units with an investment up to Rs.15 lakhs. The measures suggested for the promotion of small-scale and cottage industries included:

- I. Reservation of 504 items for exclusive production in small-scale sector.
- II. Proposal to set up in each district an agency called "District Industry Centre" (DIC) to serve as a focal point of development for small-scale and cottage industries. The scheme of DIC was introduced in May 1978. The main goal of setting up DICs was to promote under a single roof all the services and support required by small and village businesspersons.

4. Industrial Policy Resolution (IPR) 1980: The Industrial Policy of 1980 marked a major breakthrough in the policy of development of small scale industries in India. The Government of India accepted a new Industrial Policy Resolution (IPR) on July 23, 1980. The IPR wanted to synchronise the development in small scale industries with the large and medium scale industries. Industrially backward districts were identified for faster growth of existing network of SSIs. The main purpose of IPR 1980 was defined as assisting an increase in industrial production through optimum utilization of installed capacity and expansion of industries. This policy statement focused on the need for promoting competition in domestic market, technological up gradation and modernization (Sangram Keshari Mohanty, 2005).

As to the small sector, the resolution visualised following measures:

- I. Increase in investment ceilings from Rs.1 lakh to Rs.2 lakhs in case of tiny units, from Rs.10 lakhs to Rs.20 lakhs in case of small-scale units and from Rs.15 lakhs to Rs.25 lakhs in case of ancillaries.

- II. Introduction of the concept of nucleus plants to replace the earlier scheme of the District Industry Centres in each industrially backward district to promote the maximum small-scale industries there.

- III. Promotion of village and rural industries to generate economic feasibility in the villages well compatible with the environment.

- IV. Reservation of items and marketing support for small industries was to continue.

- V. Availability of credit to growing SSI units was continued.

- VI. Buffer stocks of critical inputs were to continue.

- VII. Agricultural base was to strengthen by providing preferential treatment to agro based industries.

- VIII. An early warning system was to establish to avoid sickness and take appropriate remedial measures.

Thus, the IPR 1980 reemphasised the spirit of the IPR 1956. The small-scale sector still continued the best sector to create employment and self-employment based opportunities in the country.

5. Industrial Policy Resolution (IPR) 1990: The IPR 1990 was declared during June 1990. As to the small-scale sector, the resolution continued to give significance to small-scale enterprises to serve the objective of employment generation. This policy emphasized on the need of modernization and technology up gradation to meet the objectives of employment generation and dispersal of industry in rural areas, and to enhance the contribution of small scale industries to exports.

The important elements included in the resolution to increase the development of small-scale sector were as follows:

- I. The investment ceiling in plant and machinery for small-scale industries (fixed in 1985) was raised from Rs.35 lakhs to Rs.60 lakhs and correspondingly, for ancillary units from Rs.45 lakhs

- to Rs.75 lakhs.
- II. Investment ceiling for small units had been increased from Rs.2 lakhs to Rs.5 lakhs provided the unit is located in an area having a population of 50,000 as per 1981 Census.
- III. As many as 836 items were reserved for exclusive manufacture in small- scale sector.
- IV. A new scheme of Central Investment Subsidy entirely for small-scale sector in rural and backward areas capable of generating more employment at lower cost of capital had been mooted and implemented.
- IV. In order to improve the competitiveness of the products manufactured in the small-scale sector; programmes of technology up gradation will be executed under the umbrella of an apex Technology Development Centre in Small Industries Development Organisation (SIDO).
- V. To guarantee both satisfactory and timely flow of credit services for the small- scale industries, a new apex bank known as "Small Industries Development Bank of India (SIDBI)" was established in 1990.
- VI. There is more emphasis on training of women and youth under Entrepreneurship Development Programme (EDP) and to establish a special cell in SIDO for this purpose.

Other industrial policies: Industrial Policy Resolution of 1991: In the year of 1991, the Government launched "Structural Adjustment Programme" which has resulted in radical change in the policies governing the different facets of Indian economy. In order to impart more vitality and growth to small scale sector, the Government of India declared a separate policy statement for small, tiny and village enterprises. The basic drive of this resolution was to make simpler regulations and procedures by delicensing, deregulating, and decontrolling.

Important features of this policy are as under:

I. SSIs were exempted from licensing for all articles of manufacture.

II. The investment limit for tiny enterprises was raised to Rs.5 lakh irrespective of location.

III. Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs.

IV. Factoring services were to launch to solve the problem of delayed payments to SSIs.

V. Priority was accorded to small and tiny units in allocation of indigenous and raw materials.

VI. Market promotion of products was highlighted through co-operatives, public institutions and other marketing agencies and corporations.

Basically, the Industrial Policy Resolution of 1991 delineated developmental, deregulatory and de-bureaucratic measures and underscored the need to shift from subsidized and cheap credit to a system which would ensure acceptable flow of credit on timely and normative basis to the small scale industrial sector.

Contemporary policy measures for small scale and cottage Industries:

1. Comprehensive Policy Package for small scale and tiny sector, 2000: This policy was declared by the Government of India for the development and promotion of small scale and tiny sector which has major objective to increase the competitiveness of the sector. The main focus of the policy package was:

I. The exemption for excise duty limit raised from Rs.50 lakh to Rs.1 crore.

II. The limit of investment was increased in industry related service and business enterprises from Rs.5 lakh to Rs.10 lakh.

III. The coverage of ongoing Integrated Infrastructure Development (IID) was enhanced to cover all areas in the country with 50 percent reservation for rural areas and 50 percent earmarking of

plots for tiny sector.
 IV. The family income eligibility limit of Rs.24000 was enhanced to Rs.40000 per annum under the Prime Minister Rozgar Yojana (PMRY).
 V. The scheme of granting Rs.75000 to each small scale enterprise for obtaining ISO 9000 certification was continued till the end of 10th plan.

2. Industrial Policy Packages for small scale industries, 2001-02: This policy underlines the following measures:

- I. The investment limit was enhanced from Rs.1 crore to Rs.5 crore for units in hosiery and hand tool sub sectors.
- II. The corpus fund set up under the Credit Guarantee Fund Scheme was increased from Rs.125 crore to Rs.200 crore.
- III. Credit Guarantee cover was provided against an aggregate credit of Rs.23 crore till December 2001.
- IV. Fourteen items were de-reserved in June 2001 related to leather goods, shoes and toys.
- V. Market Development Assistant Scheme was launched exclusively for SSI sector.
- VI. Four UNIDO assisted projects were commissioned during the year under the Cluster Development Programme.

3. Policy Package for small and medium enterprises, 2005-06:
 In 2005-06, the Government declared a policy package for small and medium enterprises. The main attributes of this policy package were:

- I. The Ministry of Small Scale Industries has identified 180 items for de-reservation.
- II. Small and Medium Enterprises were recognized in the services sector, and were treated at par with SSIs in the manufacturing sector.
- III. Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters in the small scale sector.
- VI. Emphasis was placed on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is currently being implemented, in nine sectors including khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.

4. Enactment of Micro, Small and Medium Enterprises Development Act, 2006:
 In May' 2006, the President has modified the Government of India (Allocation of Business) Rules, 1961; Ministry of Agro and Rural Industries and Ministry of Small Scale Industries have been merged into a single Ministry, namely, "Ministry of Micro, Small and Medium Enterprises. As a result, the Micro, Small and Medium enterprises Development (MSMED) Act was endorsed, which offers the first ever legal framework for recognition of the concept 'enterprises' against 'industries' and integrating the three tiers of these enterprises viz. micro, small and medium and clearly fixed the investment limits for both manufacturing and service enterprises. It also provides for a statutory consultative tool at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises.

5. North east industrial and investment promotion policy (NEIIPP), 2007: Due to backwardness of the North Eastern region, the Government of India broadcasted a new industrial policy for the NER including Sikkim. The policy termed as 'North East Industrial and Investment Promotion Policy (NEIIPP), 2007'. Its major objective is to encourage investment in the industrial sector by

announcing fiscal and other incentives for the purpose of overall economic growth of this region. The policy with its package of incentives is intended to encourage development of industries so that the region overcomes its continuous backwardness. To summarize, Small scale and cottage industrial sector has developed rapidly in several developing and industrialised economies of the world. In India, they have emerged as a dynamic sector of Indian economy through their important contribution to GDP, industrial production and export. The advancement of small scale industries has been one of the major objectives of economic planning in India. The policies have undergone change from time to time. The six Industrial Policy Resolutions and eleven Five Year Plans sustained a continuous flow of incentives, both protective and promotional in nature, as an element of development strategy to meet socioeconomic objectives such as employment generation, removal of poverty and regional disparities, and optimum utilization of local resources.