

ADMINISTRATIVE REFORMS COMMISSION

Report

ON
SMALL
SCALE
SECTOR



DECEMBER 1969

GOVERNMENT OF INDIA



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CHAIRMAN

GOVERNMENT OF INDIA
ADMINISTRATIVE REFORMS COMMISSION
NEW DELHI

December 24, 1969.

My dear Prime Minister,

I am presenting to you the fifteenth report of the Commission. The report is on "Small Scale Sector".

2. If in a growing economy the big industries form the base of development, the small scale industries play no less a vital role in bringing employment opportunities and fruitful economic activity within the reach of most people. In the existing state of our economy, where equitable distribution of wealth is an article of faith, small scale industries can play a determining role in the reduction of economic disparities. The Commission, therefore, decided to study this important sector and make recommendations which would ensure these objectives.

3. In 1965-66, the small scale sector accounted for Rs. 1,349 crores of the national income as against Rs. 1,207 crores of the large industries. In terms of the employment provided, the role of the small scale sector was even more impressive, employing as it did 5.7 million out of a total of 8.9 million industrial workers (excluding the household sector). The increased capability of the small scale sector to make a variety of sophisticated, intermediate, and even producer goods like machine tools, precision instruments and industrial machinery has indeed been a source of strength to the whole economy. The small scale sector is now poised for a notable advance and must, therefore, be managed more effectively.

4. Though Government have taken several measures to develop the small scale sector, the effort has been over-shadowed by the priority accorded to the growth of the bigger business and enterprises. The lumping together of the small scale sector with the cottage and village industries in the Industrial Policy Resolution as well as in the Five Year Plans has not been helpful to the optimum development of small scale sector.

5. We are of the view that a prosperous small scale sector will not only bring about general self-reliance and satisfaction but will also prevent the concentration of wealth in a few hands. In the present context of India's development, it is necessary to have an integration

of small scale industries with the rural economy, as well as with large industry, through the development of agro-industries on the one hand and of ancillary and small industries on the other.

6. In this report, we have made recommendations which are calculated to attain these objectives. We have proposed that the Industrial Policy Resolution of 1956 should be modified to incorporate a clear-cut policy on the small scale industrial sector. The policy statement should set out a ten-year perspective plan for development of the small scale sector, define its role in promoting agro-industries, its relation to village and cottage industries, and to the large scale organised industries etc. A suitable machinery should be set up to review periodically the progress in implementing this policy.

7. We have recommended the constitution of a statutory high-power apex body, the Small Scale Industries Commission, consisting of five to seven members in place of the existing Small Scale Industries Board, for promoting the development of a modern mechanised small scale sector. The existing Khadi and Village Industries Commission should continue. An inter-ministerial committee, preferably with a non-official as Chairman, may be set up to look into the problems of common interest between the Small Scale Industries Commission and the Khadi and Village Industries Commission.

8. The existing all-India Boards for handicrafts, handloom, silk, etc., may, in due course, be abolished. Till that time, however, they may continue as subsidiaries of the two Commissions. Boards like the Coir Board which are specialised and regional in character and have a definite export bias will not be affected by this recommendation.

9. We have recommended measures for strengthening and streamlining the organisation at the State level for promoting small scale industries. Greater attention must be paid to the developmental as opposed to regulatory aspects. The responsibility for providing technical advice and guidance in common basic trades and industries where comparatively low technology is employed, should rest squarely on the State Governments. For this purpose, they should take over the small scale extension centres which are about fifty in number and administered at present by the Central Small Scale Industries Organisation.

10. We have made recommendations for affording adequate credit facilities to the small scale sector. The present situation is not happy inasmuch as only about 35 per cent of these needs are met by institutional finance. We have, therefore, felt that an apex investment and finance institution should be set up with a paid up capital of Rs. 25 crores. This may be called the Small Scale Industries Finance

Corporation and should be established by statute. Specific guidelines must be laid down for the financing institutions in the matter of supply of credit to small entrepreneurs and evaluation of their performance. There should be State and District level co-ordination committees to ensure effective coordination among the different financing institutions.

11. We have made other important recommendations for eliminating the delays which the small entrepreneurs now face in obtaining scarce raw materials, imported capital goods and spare parts, etc. Such applications now pass through a number of committees and governmental organisations. To improve matters, we have suggested that an equitable proportion of scarce raw materials should be earmarked for the small scale sector and the existing procedures must be simplified. We have also recommended that the powers of the regional licensing authorities to grant licences for the import of capital goods without reference to the Central organisations should be raised from the present limit of Rs. 8,000 to Rs. 12,000. A time limit of, say, 3 months should be fixed for the disposal of all such applications. Those relating to higher amounts must be processed through a revised and quicker procedure which we have recommended.

12. We have also made recommendations which aim at the organisation of consultancy services, provision of laboratory facilities for testing raw materials, components and products, quality control, evolving specifications and standards for manufactured goods, intensifying export promotion, liberalisation of the items reserved for government purchase from the small scale sector, etc., etc. We have also emphasised the need for training of District and Block level industries officers through refresher courses and of small scale entrepreneurs-cum-managers through peripatetic teams of trainers.

13. In preparing this report we had the benefit of a detailed study of the subject by a Working Group set up by us, with Shri Arun Chandra Guha as its Chairman. We have also had the evidence of experts, officials and entrepreneurs who had knowledge of the working of this sector. We thank them all for their assistance and cooperation.

Yours sincerely,

(Sd.) K. Hanumanthaiya

Shrimati Indira Gandhi,
Prime Minister,
New Delhi.

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CHAPTER I

INTRODUCTION

The development of small scale industries offers a less complicated, yet more effective, means of achieving broadbased ownership of industry, the diffusion of enterprise and initiative in the industrial field and a more easy induction of the new entrants, thus facilitating the growth of a large entrepreneurial class and a more balanced regional economic development. This programme has been accorded a high priority in the successive Five Year Plans on account of its importance, both on economic and social grounds. Small scale industries create avenues of immediate employment of sizeable order, on an investment of relatively small capital, meet a substantial part of the demand for consumer goods of certain categories and simple producers' goods, and facilitate the mobilisation of resources of the small man and the local technical skill and workmanship, which might otherwise remain either dormant or inadequately utilised. They also reduce the distance between the manufacturer and the customer and, in fact, develop a familiar and close relationship of the two, which provides a healthy business relationship. They also bring about significant social and technological changes in the comparatively backward rural or semi-urban areas and have a great and immediate impact on the thoughts, the attitudes of mind and the ways of living of the people in the areas in which they are located or which they service.

2. Being relatively labour-intensive, this sector is helping in the solution of an important social problem, namely, the growing unemployment in the country, whether urban or rural. Our population has been tending to increase at a higher rate than anticipated in the plans and the trend does not show any signs of decline. The need of bringing about widely diffused economic development and also of providing employment to the ever increasing number of young people at reasonable wage levels, has prompted the Governments, both at the Centre and in the States, to give every possible encouragement and various types of assistance to small industries, despite our limited resources and the more pressing demands of the other sectors of the national economy. A great impetus to small scale industries could have been given much earlier if processing industries of agricultural commodities or manufacture of agricultural implements and machinery had been scientifically and more imaginatively planned and systematically executed. However, a belated effort has been made and the 'green revolution' of the past three or four years, involving scientific methods of cultivation and the mechanisation to a limited

extent of agriculture, has also opened up new vistas for the growth and expansion of the diffused small industrial sector, particularly agro-based industries.

3. The unemployment problem continues to assume serious proportions and the youth of the country, both the urban educated and the rural, is impatient to improve his standards of living; he cannot obviously reconcile himself to engaging in the arts or crafts carried on with the aid of simple hand tools. The situation, therefore, calls for the establishment and accelerated growth of more and more efficient units of industrial production, commonly known as small mechanised industries, to provide increasing employment opportunities at higher levels of remuneration and to make available to the entire population the benefits flowing from an industrial economy in the country.

4. There is an obvious growing gap between the rich and the poor and also between the developed areas and those economically backward. There is also the problem of dispersal of industrial activity and the urgent need of diffusion of economic well-being all over the country. The increasing exodus of young men in large numbers from the rural areas to the heavily congested metropolitan areas also is posing a big sociological problem. Apart from this, perhaps the greatest economic problem today and the one which is the most intractable is to reduce the extent of dependence on land. Indian agriculture is a small-farm venture. Already some 50 to 60 million farmers divide between themselves 320 million acres of cultivable land constituting an undoubtedly heavy burden on it. Agricultural labour, increasing every year with the increase in population, and the families of farmers, also maintaining increasing trend, constitute a heavy proportion of dependence on the limited yield of produce from land. There are very limited possibilities of the surplus population in rural areas making an annual exodus to the comparatively small number of industrial areas, often situated at large distances from the seat of that surplus population. With limited opportunities of employment in their own areas and the traditional reluctance of the rural people to leave their hearths and homes, there is paramount need for absorbing this surplus population in gainful employment nearer home. For the solution of rural poverty, for the absorption of the surplus rural population, and for linking agriculture with agro-based industries nearer home, there is and can be no better solution than the large scale organisation of small scale industries dispersed all over the country, preferably in small townships well-laid out and provided with amenities of roads, water-supply, drainage and electric power which can absorb the surplus rural population of neighbouring areas and at the same time contribute to the welfare of the rural population through the provision of consumer goods nearer home and

through processing of agricultural commodities of the neighbouring areas in close proximity of the villages in which they are produced. Such a well-organised chain of townships integrated with rural economy would not only be a means of solving the problem of rural poverty in many respects but would also be the instrument of improving rural economy through its integrated development and at the same time would exercise a healthy influence on the development of many institutions of enlightenment and education. In this sense, and in this context small scale industries will constitute the key to the development of the country as a whole and bring rural areas in line with the developments in urban areas, thereby not only reducing their relative disparity but also removing a sense of legitimate discontent which threatens to enlarge the gulf between the rural and the urban population. Therefore, both from social and economic points of view, a dynamic and well organised small industries programme is of vital importance and has to assume an expending role.

5. The modern small sector industry took its present shape and form about the commencement of the Second Plan when, incidentally, the Industrial Policy of the Government, which had been first enunciated in 1948, was reformulated in 1956. The Industrial Policy resolution of 1956 laid emphasis on sustained and systematic programme for the development of this sector. It recommended, *inter alia*, that such serious lacunae as lack of technical and financial assistance, unsuitable working conditions and inadequacy of facilities for repair and maintenance, should be removed progressively to increase the efficiency of the small scale sector. Over the past decade or so, this sector which was previously operating with traditional hand tools has been transformed into a modern or semi-modern industrial sector based on a system of production with the help of machines and power. This sector is at present manufacturing a wide variety of consumer goods and also simple producer goods which are comparable in quality and more or less competitive in price with the products of the large scale sector. The capacity of the small sector to produce sophisticated goods was amply demonstrated during the last two emergencies when small producers were able to pool their resources to manufacture precision parts, components and stores for the defence needs of the country. Moreover, the efficiency of this sector can also be gauged from the fact that the small scale enterprises account for almost the entire production of certain items like clinical thermometers, bifurcated rivets, measuring tapes, mechanical toys, glass ampules, etc., and over 50% in items like electric irons, wire netting, polythene tubing, ball bearings, fountain pens, spectacles frames, pressure cookers, switches, etc. Also in the field of non-engineering industries like chemicals, particularly paints and

dyes, pesticides and plastics, the achievement of small industries sector has been remarkable. Further, it is poised for notable advances in more sophisticated fields like electronics, electrical measuring instruments, thermo-plastics and the manufacture of precision scientific instruments. All these facts would illustrate the capacity and potentialities of this rapidly developing sector for making significant contribution towards the growth of the national economy as well as the conservation of precious foreign exchange.

6. The rapid growth of large scale industry ever since Independence has also given some impetus to the small scale sector though in a somewhat unplanned manner. A beginning has been made both by the private and public undertakings in the large sector in associating small scale industries with the manufacture of ancillary items. Large scale sophisticated industries, like automobile and air-craft,, require a surprisingly large number of parts, components, accessories and sub-assemblies for which they have to depend on the ancillary units all over the world. With the improvements in their techniques and organization, the small scale industries offer possibilities of acting as feeder/ancillary units to the large scale industries. Thus a nexus between the large and small scale industries would not only be mutually beneficial but would help in the long-term development of the economy of the rural and semi-urban areas which would otherwise remain sluggish and stagnant. Besides undertaking the production of a large number of consumer and simple producer goods of great variety, they would increasingly play an important role as ancillary and feeder industries to the large scale industries and operate as production units complementary to them. This would also enable us to reduce the concentration of capital wealth in a comparatively small number of industrial units or institutions and to diversify technical talent in a manner which would bring about a rationalisation of the use of right type of technical man-power and at the same time full utilisation of the large number of technical and semi-technical personnel which at present does not secure opportunities of employment in bigger industrial units.

7. The basic data and statistics of production, employment, capital, etc., in the small scale sector would reflect the performance and achievements in this field. The small scale industries, both in the organised and unorganised sectors, are estimated to have made a contribution of the order of Rs. 1180 crores to the national income of the country, as against a sum of the order of Rs. 1155 crores by the larger industries in 1963-64. In the same year they were responsible for providing employment to 2.7* million persons out of a total industrial employment of 5.33* million. Looking at the comparative contribu-

* The figures of employment relating to the Small Scale Sector are in respect of the small scale units registered with the State Directors of Industries and are, therefore, not comprehensive.

tion of the different sectors, the following position will be evident in respect of the year 1963. The large scale sector, which accounted for as much as 85% of the total fixed capital, contributed 64% of the value added by manufacture and provided nearly 48% of the total employment. The small scale sector, on the other hand, provided 35% of the total employment in factories and about 30% of the aggregate gross output with only 8% of the total fixed investment.

8. Under the stimulus, partly of the promotional measures taken and the assistance provided by Government, and partly as a result of the initiative, enterprise and resourcefulness and the great devotion and zeal for innovation and for the adoption of modern techniques displayed by the small entrepreneurs, the small scale sector made very rapid strides during the fifties and early sixties. This was commented upon favourably by a number of foreign observers also; for instance, the International Perspective Planning Team, which was invited early in 1962 to review the progress made by the small scale industries, observed in their report that the growth of modern small scale industries in India was one of the "most significant features of India's development".

9. Having made rapid strides during the last decade or so and having now reached the present stage of development, the small sector cannot rest on its oars, since the problems of abysmal poverty, mass unemployment and the socio-economic development are calling for urgent solution and making pressing demands, for the diffusion of economic well-being and for rapidly enlarging the opportunities of gainful employment etc. The small scale sector has, therefore, to make a leap forward in order to fulfil the needs and aspirations of the people and to satisfy the expectations aroused.

10. In the light of these considerations, the Commission set up a Working Group, headed by Shri Arun Chandra Guha, which studied in depth the administrative and related problems of the small scale industries in the States and at the Centre. The painstaking work done by this Group has proved to be of great value to us. We place on record our appreciation of the hard work and devotion to duty of the Chairman and members of the Working Group.

11. We have also benefited from the reports of certain other committees like the Lokanathan Committee, the Asoka Mehta Committee and discussions with concerned officers and other knowledgeable persons. We have gained considerably from their views and comments and we offer our thanks to them.

CHAPTER II

A POLICY FOR SMALL INDUSTRIES

Though our Plans have emphasized the need for rapid development of capital intensive, modern and sophisticated industries, including basic industries, to enable India to occupy its rightful place among the developed nations, our economic programmes have simultaneously kept constantly in view the paramount need of giving high priority to labour-intensive, small and cottage industries programmes, as they offered large opportunities for gainful employment and helped in the evolution of a balanced egalitarian society. Gandhiji's love for the small sector, his concept of an ever-expanding sector of self-employed people spread over half a million villages, was green in the memory of the people when the Industrial Policy Resolution of 1948 was adopted by the Government of India. This Resolution attached great importance to the small scale sector, stating *inter alia*:

"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. The Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be coordinated and integrated with large-scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to rather than competitive, with the handloom industry which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries, at present highly centralised could be decentralised, with advantage."

2. In pursuance of this policy, a number of Boards were set up during 1952-53 particularly, for different kinds of cottage industries like handlooms, handicrafts, coir, silk and khadi and village industries.

3. The second Industrial Policy Resolution of 1956 urged the need of sustained development of the small sector and stressed the

important role of cottage, village and small industries in the national economy. The Resolution points to their distinct advantages, namely, their employment potential, more equitable distribution of national income and economic growth, more effective utilisation of the capital and skills lying dormant in the country and the establishment of small centres of industrial activity distributed all over the land, as an antidote to unplanned urbanisation.

4. This Resolution also suggested a system of controls, restrictions, concessions, incentives and differential taxation for fostering and promoting the development of small scale and cottage industries. Various measures like restrictions on the production of the large sector through licensing etc., the exclusion of organised industries from certain fields of production by reserving the latter exclusively to the small scale, the common production programmes to ensure a fair share to the small sector and concessional taxation measures were adopted for this purpose. Other administrative steps, like the provision of technical advice, common facility centres, testing facilities, financial assistance and price preference in Government purchases, were also taken by the Government. However, the economic trends during the Third Plan, the emergence of a new class of big entrepreneurs and the growth of giant business enterprises and organisations which enjoyed obvious advantages in matters like technical manpower, financial resources and foreign collaboration, enabled the large sector industries to make rapid progress and they were slowly and imperceptibly able to make inroads into fields which were considered to be reserved for the small sector.

5. Despite these adverse factors, it is very creditable for the mechanised small scale sector to have registered considerable progress during the last 20 years. There has, however, been some shortfall in the utilisation of the financial outlays provided for this sector under the Plan. Thus, the small sector seems to be comparatively lagging behind and a new orientation of policies and programmes has to be formulated in order to give a boost to the accelerated development of this sector.

6. The Draft Fourth Five Year Plan envisages a meagre outlay of Rs. 184 crores only on village and small industries in the public sector (1.5% of the total outlay of the Plan) as compared to Rs. 150 crores in the Third Five Year Plan (2.4% of the total plan outlay). Even after taking into account the estimated outlay in the private sector, the total expenditure on this sector in the Fourth Plan is estimated to be only 3.1% as against 4.1% during the Third Plan period. This would tend to confirm the impression that the small

sector has not been given the position of high priority which should be its due.

7. The recent policy of the progressive delicensing of industries has also been causing some concern to the small scale sector. The earlier concept of the two sectors being complementary and supplementary to each other appears to have been thrown into the background and there has not developed between the large scale and small sector that harmonious and smooth functioning in a joint common endeavour, which is necessary for the rapid industrialisation of the country. Even within the small scale sector, there are signs of conflict between the smaller units and the comparatively larger units of the same sector. The recent fresh definition of the small scale sector has brought within its ambit a number of what were once medium scale industries. Therefore, there appears to be good justification for apprehension among the smaller of the small sector units.

8. The clubbing together of the small scale sector with the cottage and village industries in the Industrial Policy Resolution, Five Year Plans, etc., may partly be accountable for some confusion and even contradictions in the implementation of policies and programmes and in the approach to the problems of different sections of the small scale sector with somewhat differing conditions and requirements. The Working Group has noted this fact and stated that "this has created difficulties about the implementation of the policy in regard to the small scale industries as requirements of such industries and those of village and cottage industries have undergone changes and are substantially different at present." But it is also a fact that in the context of a rapidly developing economy, the line of demarcation between the modern small scale sector and the traditional sector is likely to get blurred as the latter imbibes and adopts higher and improved production techniques—a process which has already started. The work done by various Boards dealing with small industries for increasing their productivity and quality by the adoption of more efficient technologies is hastening this process.

9. The Industrial Policy Resolution of 1956 is somewhat generalised in its approach to the small sector. It is time, therefore, that more detailed policy guidelines and appropriate operational measures are spelt out in depth by the government and implemented with determination with regard to both these segments of the small sector. The objectives of the small sector's programme are, according to the Fourth Five Year Plan, "to improve progressively the production techniques of small industries so as to enable them to produce quality goods and to promote agro-based industries." These objectives are unexceptionable. But the question is as to what extent and how the conflicting claims of different sectors in the small sector itself are to

be reconciled and how far the objectives of dispersal and diffusion of industries will be found compatible with the concepts of economy of scale, higher productivity and efficiency of automated industries, the tendency of modern industries to conglomerate, and the special locational and geographical advantages of certain large industries in regard to raw material, power supply, transport, etc. A balance has, therefore, to be struck between the claims of the social philosophy underlying the accepted programme of small industries spread all over the country bringing employment and economic benefits in particular to the remote and backward regions of the country and the economic advantages of the superior technology of giant industrial complexes in this age of electronics and computerised production technology. We are, therefore, of the view that the stage has come for a restatement of the Industrial Policy Resolution as well as of the strategy and methodology to be adopted in regard to the place and role of the small sector in the context of a large sophisticated and mechanised sector in our national economy. This revised statement of the national industrial policy should include specific reference to both the short-term and the long-term perspectives for the small scale sector. The role and responsibility of this sector should be enunciated precisely in the fields such as production, employment opportunities, the need to adopt improved technologies progressively, labour mobility, the deconcentration of economic power, the diffusion of economic welfare and the dispersal of industries with reference to special requirements of the different regions and particularly of the undeveloped regions. In particular, the policy on the following points would require to be laid down in clear and unambiguous terms :

- (1) In terms of a ten years' perspective what should be the strategy for the development of the mechanized small scale sector and its place not only vis-a-vis the large organised sector but also in regard to the non-mechanised cottage industries sector;
- (2) What role is expected of the smaller units of the small scale industries in future, particularly those processing agricultural raw materials in rural areas;
- (3) To what extent and in what manner promotional measures like improved technology, modernisation, export promotion, etc., should be modified and improved; and
- (4) What specific steps should be taken to bring about the induction of small scale industry in certain lines of production and their dispersal over the entire country so that disparities in the level of economic development between different regions be distinctly reduced.

Recommendation 1

We, therefore recommend :

A clear-cut and new statement of policy on small industries, suitably modifying/amplifying the Industrial Policy Resolution of 1956, should be enunciated at the earliest.

Operational Equivalents

10. This brings us to a recommendation made in our Report on "Economic Administration" where we had emphasised the need for framing operational equivalents to plan proposals. The Report stated : "In order that all concerned including the Private Sector should have a clear idea of what is expected of it by way of implementing the plan programmes with due regard to priorities, Government should frame operational equivalents of the proposals". Implementation of the above recommendation in the field of small industries by an adequately alert and watchful administrative apparatus should help in the achievement of our objective with due regard to economy in the context of our very limited resources. The strategy for implementing such a policy will have to be spelt out in great detail in relation to regions of varying degrees of development. Simultaneously, well-defined tasks will have to be assigned to the private and public sectors and the relationships between them enunciated in more specific terms and the guidelines worked out. For this purpose, once the promotional or operational equivalent has been worked out, internal committees, comprising both officials and non-officials, should be set up to review the progress in this field and promptly to identify the weak points where assistance has to be given, as well as to indicate remedial measures in time.

Recommendation 2

We, therefore, recommend :

In line with our recommendation in our Report on Economic Administration in relation to other plan proposals, operational equivalents should be fully worked out for the planned programmes and policies relating to the small sector also. For the success of the operational efforts, a system for periodical review should be instituted to assess and evaluate the progress made.

11. A restatement of the industrial policy with particular reference to the small sector alone might not be sufficient to achieve the desired objective unless effective measures are taken to curb the extraneous pressures at various levels in the governmental hierarchy. It will be, therefore desirable that the new policy should be given a

statutory base and the approval of Parliament or of the State Legislature, as the case may be, secured thereto.

12. In view of the over-riding needs and requirements of the situation the small scale sector should necessarily be given very high priority in our plans, more so as there is an almost universal demand for the wide dispersal and more equitable distribution of industrial activity in this country. The demands of social justice also make it incumbent on the Government to give a very high priority to the small sector. Moreover, the small scale sector on account of its inherent advantages like low capital cost, short gestation period, and less infra-structure facilities, etc., will be a factor of vital importance in the speedy economic development of the country, particularly the backward regions and the weaker sections of the society. It also offers hopes of effectively dealing with the complicated issues of the growing disparities of income and the endemic unemployment in the country. Therefore, when formulating schemes for the small scale sector, we should keep in view the direct as well as indirect benefits accruing from the small sector to the society and the national economy.

Recommendation 3

We recommend :

The Industrial Policy for the development of small scale industries should clearly affirm the high priority to be given to the industries in the small scale sector in view of its potential for creating employment opportunities, stimulating entrepreneurship on a wide base and bringing about a more equitable distribution of income and wealth. It is of the utmost importance to ensure healthy growth of the small scale sector, not only to accelerate the industrial and economic progress of the country, but also to provide a broader and economically and socially more justifiable industrial base.

13. Nearly two decades ago, Government adopted the policies of 'common production programmes' and 'reservation of fields' for the development of the small sector. The concept of a 'common production programme' originated during the First Five-Year Plan and the term was used in respect of a programme prescribing the respective contributions of the large scale, small scale and cottage industries sectors towards the entire demands of the country in the context of the socio-economic objectives and policies. Thus, it was stated : "Wherever a large-scale industry competes with a cottage industry, the appropriate course to adopt would be to try and formulate a common production programme". In formulating such a programme, all the relevant

factors would have to be taken into account, i.e., the relative efficiency and capacity of the large scale and small-scale sectors, the consumption needs of the people based on certain norms and the scope for development on small scale basis. While it was recognised that common production programme for an industry would necessarily imply a measure of control by the Government particularly over the organised sector of the industry, it was emphasised that the essential features of the programme should be applied after a detailed study of the important sectors of industry. It was suggested that one or more of the following would be the relevant factors in laying down common production programmes for the related large-scale and small scale industries :

- (i) Reservation of spheres of production;
- (ii) Non-expansion of the capacity of the large-scale industry;
- (iii) Imposition of cess on the large-scale industry;
- (iv) Arrangements for the supply of raw materials; and
- (v) Co-ordination for research, training, etc.

The first three out of the elements mentioned above were intended to provide a degree of preferences or assurance of market to the small sector, while the remaining two were intended to provide assistance in positive forms.

14. During the Second and Third Plan periods, one or the other of the elements of a common production programme was applied to a number of industries. Many small scale industries, including those covered by one or the other of the elements of a common production programme, expanded considerably during this period though it was not possible to determine separately the extent of expansion due to the elements of common production programme or the provision of assistance and facilities in different forms or import restrictions. It has not been found practicable through the various elements of common production programme to provide a complete shelter to both the traditional village industries and the small scale industries against competition from large scale undertakings. A ban on the expansion of the capacity of the large scale units may not also serve much useful purpose since with the progressive delicensing of the industries and the raising of exemption limits, many units having substantial fixed assets do not now have to apply for a licence.

15. In this connection the Working Group has referred to an important factor, namely, that large scale producers of basic materials, like iron and steel, non-ferrous metals and inorganic chemicals, also are manufacturing and offering at lower prices the final products which are being produced in the small sector, thus offering an unfair competition to the latter. It has expressed the view

that large scale producers of such products should not normally be allowed to engage in the manufacture of finished products themselves. They have recommended in this connection that it will be necessary to identify and earmark specific areas or fields of production for exclusive production in the small sector based on the proved competence of this sector to fulfil the tasks in the field assigned to it. A well demarcated reservation of fields in the case of such industries would appear to be imperative to provide protection to the small sector against this competition.

Recommendation 4

We, therefore, recommend :

For the implementation of the policies in relation to common production programme and the reservation of fields, there should be set up, at the Centre, in consultation with the institutions concerned, a Committee consisting of Joint Secretary-in-charge of the small industries sector in the appropriate Ministry, and the representatives of organisations like the Small Scale Industries Commission (proposed by us below) the Khadi & Village Industries Commission, the Federation of Small Scale Industries Associations, etc. This body should be advisory in character and it should review periodically the progress in implementing the policies in respect of matters mentioned above and suggest remedial measures. Corresponding arrangements should be made in the States also. In the light of past experience, the policies in respect of common production programme and reservation of fields will need to be enunciated afresh.

CHAPTER III

ADMINISTRATIVE ORGANIZATION AT THE CENTRE

Small Scale Industry is a State subject and the duty and responsibility of fostering its growth and development rests with the States. Yet, since, in view of the national importance of the programme, small industries have been given an importance in our successive plans, the Central Government rightly decided to set up the Small Scale Industries Board at the Centre in 1954. It comprises the Central and State Government Ministers and officials, the representatives of the Reserve Bank of India, State Financial Corporations and various organizations concerned with small scale industries and a number of non-officials representing trade, industry and other interests. The Board was divided into two units in 1965. The Small Scale Industries Board, as the policy-making body, consists largely of the Union Ministers and the State Industries Ministers and a number of selected officials and non-officials. The Small Industries Official Level Committee, as the body responsible for implementation, consists of officials and non-officials. One of its important responsibilities is to follow up the recommendations of the policy-making Board with a view to ensuring early and effective implementation.

2. After examination of the issues involved, the Working Group is of the view that the present practice of the two bodies meeting separately once in twelve months is not conducive to the development of the small scale industry. The Board has lost some of its effectiveness due to bifurcation and to the existing long intervals between the two meetings. It has suggested a reversion to the earlier pattern under which the Board used to meet regularly at least three times a year. Some Standing Committees might, however, be set up for follow-up action and for reporting to the Board periodically.

3. While this suggestion of the Working Group is desirable in itself, we feel that, in the altered circumstances of today when a more radical programme of accelerated development of the small scale sector has to be undertaken, the apex organizational set-up should be suitably streamlined and strengthened and made a fit instrument for discharging the more onerous responsibility of fostering the growth of small scale industries and implementing the policies and programmes in relation thereto. This organizational set-up at the Centre should be a high-powered body endowed with adequate powers, resources, and the requisite authority so that it may discharge

its responsibilities successfully. For this purpose we would suggest that necessary legislation should be promoted through Parliament for setting up, on a statutory basis, a Commission, which may be known as 'Small Scale Industries Commission'. In this connection we are not oblivious of the fact that the Khadi and Village Industries Committee (known as the Asoka Mehta Committee) has recently, in its report submitted in 1968, recommended the setting up of a Rural Industries Commission at the apex to promote the development of cottage and small industries in the rural areas. This will be, under their recommendation, a single comprehensive authority charged with the responsibility of rapidly industrialising the rural areas. And on its formation the present Khadi and Village Industries Commission would cease to exist. As recommended by the Asoka Mehta Committee, this Commission will be concerned with the small industries in the rural areas only, to the exclusion of the urban areas and probably semi-urban areas where new clusters of small scale industries are springing up. In the context of our industrial development, this dichotomy between the industries located in the rural areas and those in the urban areas is not calculated to foster the growth of either. The distribution of functions between the two Commissions or authorities should, in our view, be done not on a basis of the rural or urban character of an area but on a functional basis. This aspect is of great significance, since, as a result of the development of infra-structure and the industrialisation of the country, the rural areas are getting, and will increasingly get, transformed into urban or semi-urban areas. Moreover, it is unlikely that cottage industries and common basic trades would disappear altogether from the urban areas. The Government have not, we understand, taken any decision on the recommendation of the Asoka Mehta Committee in favour of setting up the Rural Industries Commission to replace the Khadi and Village Industries Commission.

4. In our considered view, it is appropriate that a statutory body should be constituted at the apex to be in the overall charge of the growth, development and promotion of the small scale industries, whether they be located in the rural areas or in the urban areas. The Commission, as proposed by us, would leave out of its purview the subject of khadi and village industries which are, at present, being handled by the Khadi and Village Industries Commission. The latter should, in our view, continue to be responsible for Khadi and those industries in the rural areas which are known as the village industries. Under this functional distribution the Small Scale Industries Commission will look after the modern mechanised small industries. The Commission would be a statutory body consisting of five to seven persons nominated by Government for a specified term, say, three

to five years, and they should have the powers, *inter alia*, to undertake training and research, to provide coordination in the implementation of the programmes in the States and be the principal agency for fostering and guiding on correct lines the growth of industries in this sector all over the country. The requisite secretariat assistance should be provided to it. If the Development Commissioner is a person of higher rank and status, as per our recommendation in para 9 below, he should be the Chairman of the Commission. In any case, the Chairman of the new Commission should be a person of wide experience or knowledge in the field of development of the small scale sector, with a sense of commitment to the programme. The existing organisation of the DCSSI would ensure smooth and harmonious functioning of this apex body and would place at the disposal of the Commission an organisation which has developed considerable experience, knowledge and expertise over the last fifteen years.

5. As the development programmes of most of the industries have to be implemented in the States, it will be necessary to have corresponding Boards with well-defined functions and operational responsibilities in the States also. The Commission at the Centre would then function as the apex body in a federal set up, thus facilitating proper coordination and integration of programmes. The statutory character of the Commission will inspire greater confidence in the states and among the small entrepreneurs and will also enable a speedier implementation of the programme.

6. Though there will be two statutory Commissions with separate functional jurisdictions, we feel that, for historical and social reasons, village and cottage industries will require special treatment for many decades to come. Efforts should, therefore, be made to establish coordination between the activities of the two Commissions by some kind of institutionalised arrangement including common membership of a few persons. For this purpose an inter-ministerial committee presided over preferably by a non-official may deal with the problems of common interest, like common production programmes, and formulation of policies and act as an Advisory Committee for the small scale sector.

7. The question would then arise whether, after the creation of these two Commissions, the existing Boards, like the Coir Board, the Handicrafts Board, Handloom Board, etc., should be continued. Some of these Boards, like the Coir Board, are of a specialised nature and their activity is limited to a particular region. Such a Board need not therefore, be dispensed with. There would not be an equally strong case for the continued existence of other organisations concerned with the small industries, like the Handicrafts Board, the Handloom Board and the Central Silk Board. If considered necessary, the other

all-India Boards might continue to exist for some time as subsidiaries to the two Commissions. A specialised and expert Board, like the Coir Board, should, however, be allowed to continued. We would however, recommend the dissolution of these Boards in general in the course of time when the commission gets into full stride.

Recommendation 5

We, therefore, recommend :

- (1) A Small Scale Industries Commission should be set up under a statute of Parliament in place of the existing Small Scale Industries Board.
- (2) There should be distribution of work between the proposed Commission and the existing Khadi and Village Industries Commission on functional rather than on area basis. The Small Scale Industries Commission should be charged with the responsibility for the development of the modernized small sector.
- (3) An inter-ministerial committee presided over preferably by a non-official may deal with problems of common interest like common production programme, evaluation and formulation of policy.
- (4) If considered necessary, the existing all-India Boards like the Handicrafts Board, the Handloom Board, etc. might continue for some time to serve as subsidiaries of the two Commissions in their respective fields. Certain Specialized Boards, like the Coir Board, may, however, be allowed to continue as at present.

8. In our Reports on the Machinery of the Government of India and its Procedures of Work and on Economic Administration, we had made certain recommendations regarding the structure of administrative offices for certain policy-cum-executive organizations. We feel that the existing organization of the Development Commissioner, Small Scale Industries, should be structured as an administrative office in the Ministry of Industrial Development. This should reduce decision-making points and also prevent the duplication of work and help reduce the bottle-necks. This organization may also provide the secretariat of the proposed Commission and its officers and staff would function as the executive of the latter.

9. The Working Group has recommended the strengthening of the headquarters of the Development Commissioner's organization by inducting top level experts in different specialities and raising the

status of the Development Commissioner also. According to the Working Group, this will enable the Development Commissioner to discharge his functions with greater confidence, to make his weight felt and to handle the matters which are normally disposed of at the Joint Secretary's level in the Ministry. The Group also feel that with the raising of the status of the post, it would not be necessary to have a separate Joint Secretary to deal with small industries in the Ministry. We understand that recently the pay of this post has been made equivalent to that of a Joint Secretary. We consider it of importance that the Development Commissioner should enjoy a status adequate to the nature of his duties and responsibilities. He should function as the Principal Adviser to the Government in his sphere of duties and functions in terms of the recommendation (Recommendation No. 11) made in our Report on the Machinery of the Government of India and its Procedures of Work, and as such he should not be placed at a disadvantage in his dealings with other organisations like the DGTD, etc., mentioned by us in Para 97 of the aforesaid report.

There would also be need for coordination of the development of various industries in the small scale sector which are at present under the control of various other Ministries like the Ministry of Defence (Electronics), the Ministry of Petroleum & Chemicals (petro-chemical based industries), the Ministry of Food and Agriculture (agro-based industries) etc. The formulation of policies and programmes in this respect by the Ministries concerned should be done, in our view, through a process of consultation with the Development Commissioner, Small Scale Industries, and his views given due weight and consideration.

Recommendation 6

We recommend :

The organisation of the Development Commissioner, Small Scale Industries, should become a part of the Ministry of Industrial Development, etc., and the DCSSI should function as the Principal Adviser to the Government on the development of the small scale industry. This organisation should be technically strengthened by inducting suitable experts in various specialities.

10. The National Small Industries Corporation is primarily responsible for supplying machinery to small entrepreneurs on hire-purchase basis. The Corporation is also required to undertake promotional work. At present it does not directly engage in marketing activities to assist in the sale of small industries' products. It also manages three prototype production-cum-training centres at Okhla,

Rajkot and Howrah and one industrial estate at Naini. The responsibility of the NSCI for the management of the industrial estate with the Corporation is a historical accident and does not legitimately belong to it. The industrial estate at Naini may not be receiving the requisite amount of attention mainly because it is considered to be a subsidiary activity of the Corporation. The Working Group has suggested that the management of the industrial estate at Naini should be handed over to the State Industries Department as early as possible. We agree with the suggestion and recommend early action.

11. Due to the general industrial boom during the first three plan periods, marketing has not hitherto been much of a problem to small industries. Marketing organizations and emporia have, no doubt, given a great fillip to the cottage industries like handlooms and handicrafts. In future, we feel small industries will have to face more difficult marketing problems as the large sector is steadily diversifying its products and entering into the fields to consumer industries in which they were not much interested in the past. The diversification of production in certain fields permitted to the large sector units after the Pakistan war has increased this threat. It will, therefore, be desirable if the National Small Industries Corporation extends its activities to the marketing field and devotes more attention and care to this aspect. Subsequently, as its activities in this field expand, the formation of a separate organisation might have to be considered.

12. Standardisation and quality control measures are necessary aids for this purpose. The establishment of a net-work of marketing centres for small industries might not be possible for the National Small Industries Corporation at this stage. But the Corporation could, with more effect and greater success, assist in the work of standardisation, quality control, etc., with the assistance of Small Industries Service Institutes in different States, as also assist the growth of cooperative stores by bringing together small enterprises.

13. In the proto-type production-cum-training Centres which are run by the N.S.I.C., the major activity at present is the training of the technical personnel. Prototype production is today a less important part of their activity and not much success appears to have been achieved in this field. The Working Group has suggested that the Corporation should be divested of the responsibility of running the proto-type production-cum-training centres and that the administration and management of these centres should be placed in the charge of a separate central body to be constituted for the purpose. We do not think that a new body, such as the one suggested, would be necessary for managing the three centres. The administration of these centres could conveniently be entrusted to a central agency,

preferably the proposed Commission and become an integral part of their responsibility.

14. It appears that the Corporation's marketing activity has run into heavy weather because of technical difficulties. In our view, marketing now holds the key to the development of the small scale sector and it should be one of the very important functions of the National Small Industries Corporation. The Working Group, while dealing with this aspect, has observed that the marketing service of the type envisaged cannot be a profit-earning proposition in the initial stages. It has suggested that financial deficits, which might be unavoidable in this type of activity in the initial stages, may have to be made good by the Government for a reasonable period. The Group also felt that the Corporation has been considerably handicapped in its activities due to lack of resources. With a paid-up capital of Rs. 50 lakhs only and the loans and credits exceeding Rs. 17 crores, the financial structure of the Corporation leaves much to be desired. The Group, therefore, has urged that the financial position of the Corporation should be put on a sound footing by augmenting its resources so that it may be in a better position to discharge its duties and responsibilities which include *inter alia* the important task of rendering marketing assistance to small industries in the country. In view, however, of our proposal elsewhere (Chapter VI) for the setting up of a Small Scale Industries Finance Corporation as the apex financing body for this sector, the position of financial assistance, if any, could be considered by the apex body.

15. The activity of the Corporation, so far as the hire-purchase of machinery is concerned, has been, generally speaking, progressing satisfactorily. But we cannot ignore the fact that there has been some overcentralisation in this matter and the small entrepreneur has to run from pillar to post in many cases. A highly centralised institutional frame of the present type is unsuited to the task of looking after the need of a large number of small entrepreneurs spread all over India. The procedures of the Corporation in respect of the hire-purchase of machinery should be so devised that an entrepreneur is not required to go beyond the State headquarters. The Corporation should either have its regional offices at the State headquarters and/or other convenient centres or enter into an arrangement with the State Governments, under which the Director of Industries would act as their local agent in the matter of hire-purchase etc. This should be accompanied by maximum decentralisation of authority.

Recommendation 7

We recommend :

- (1) The Industrial Estate at Naini should be transferred to the State Industries Department.

- (2) The National Small Industries Corporation should be divested of the responsibility of the administration and management of the Proto-type Production-cum-Training Centres. Their administration should be entrusted to another Central agency, preferably the proposed Commission;
- (3) The National Small Industries Corporation should undertake vigorous marketing assistance programmes. In the initial stages, this activity should not be treated as a commercial activity but as of promotional nature;
- (4) The National Small Industries Corporation may either have regional offices or preferably enter into arrangement or understanding with the State Governments, under which the Director of Industries will act as their local agent in the hire-purchase cases. There should be the maximum decentralisation of its hire-purchase activity so that journeys of small entrepreneurs to the headquarters of the Corporation may be avoided.

16. With the transfer of the control of the Proto-type Production-cum-Training Centres (P.T.C.) from the National Small Industries Corporation (N.S.I.C.) its duties and responsibilities will diminish to some extent. While it is proposed that the marketing activities of this Corporation should be extended, there will be some duplication of work involved in the two institutions existing at the Centre side by side, namely, the Small Scale Industries Commission and the National Small Industries Corporation and their functions will also overlap to some extent. In view of this, on the coming into existence of the Commission, there should be a fresh appraisal of the duties and responsibilities of the Corporation and it should be considered, in due course, what specific duties and functions should vest in each organization.

Recommendation 8

We, therefore, recommend :

On the coming into existence of the Small Scale Industries Commission, there should be a fresh appraisal of the duties and responsibilities of the National Small Industries Corporation so that the overlap of functions or conflicts over, the spheres of work are avoided,

CHAPTER IV

ADMINISTRATIVE ORGANISATION IN STATES

The organisational set-up in the States is of great importance for the growth, development and continuous functioning of the small scale industries. Its structure and apparatus and its procedures for taking policy decisions and implementing programmes, the general administrative and technical competency of the staff and varied and complex responsibilities and functions of the administrative hierarchy need, therefore, careful attention and scrutiny. At the State level the administrative work is the responsibility of the State Directorate of Industries headed by a Director of Industries, who may be assisted by such Additional, Joint or Deputy Directors, etc., as the volume of work may warrant.

2. The Director of Industries in the State Governments should be a senior officer, well-experienced and knowledgeable. The Director of Industries should normally be allowed to hold the post for a sufficiently long time for three to four years at a time—and the arrangement need not be disturbed except under special circumstances. His activities should be developmental and promotional particularly in relation to the small scale industries.

3. In the States generally the Director of Industries is in charge of all industries—large scale, medium and small scale. In consequence partly of this, the Directorates concern themselves and are pre-occupied more with the spectacular and publicity oriented matters relating to the large scale sector. The matters connected with the small scale sector, therefore, tend to get relegated somewhat to the background. This tends to give one the feeling that these matters do not receive the requisite amount of prompt and timely attention and action. In such cases an officer of almost equivalent rank, viz., an Additional Director of Industries could, with benefit, be appointed to deal with the problems of large sector and medium sector exclusively. However, in the smaller States, the nature and volume of work may not fully justify the need for such an additional officer. The Director should, while retaining an overall coordinating role, assume the direct responsibility for the implementation of the programme of small scale industries and should devote the maximum of his time and energy to this aspect of the work. His responsibility in this field should not be whittled down in any respect.

4. As regards the suggestion made from time to time that the Directorate of Industries should be combined with the Industries Department of the Secretariat at the State level, it will be recalled that we have already discussed this aspect of the organisation at the State level and the integration of the executive department with the secretariat in our Report on State Administration. We came to the conclusion, *inter alia*, that the headquarters organisation of an executive department concerned primarily with planning, implementation, coordination and review of a single development programme or several allied programmes covering a substantial area of the activities of the Ministry and having direct bearing on policy-making, should be integrated with the administrative department concerned, subject to their satisfying certain criteria laid down by us. Under our scheme of things, the heads of the executive departments which are integrated with the Secretariat should function as Principal Advisers to the Government in their respective areas and should enjoy a status adequate to the nature of their duties and responsibilities. They would, however, retain their present designations. The criteria laid down in the report mentioned above, would apply, *mutatis mutandis* to the Director of Industries also.

5. The Director of Industries should, like other heads of departments, have the requisite powers and operational freedom to discharge effectively his functions and duties. To enable him to implement effectively the policies and programmes and to provide satisfactory service to the people, he should be delegated adequate administrative and financial powers. In this connection we would invite attention to the recommendation made in our Report on the 'Delegation of Financial and Administrative Powers', where we have commented, *inter alia*, on the need for an overall approach of the "maximum possible" delegation rather than the "minimum necessary", placing on the delegated authority the responsibility of ensuring that delegated powers are exercised properly, modifying the delegations only through the amendment of relevant rules and not through executive instructions and authorising the heads of departments to re-delegate, with the approval of administrative department, some of their administrative powers to the officers in their respective organisations. We have reiterated these observations in respect of the State level administration also in our report on State Administration. It is essential that the Director of Industries should have the necessary power and authority to deliver the goods, and that his functioning or the discharge of his responsibilities is not hamstrung by the State Secretariat. The latter should concern itself principally with the formulation of broad details of the policy and the Directorate of Industries should have the maximum delegation of powers in respect of execution of programmes, personnel policies, management of finance and other administrative matters.

Recommendation 9

We, therefore, recommend :

- (1) the Director of Industries in the State should be a senior officer, and should normally hold his assignment for a period of three to four years. He should have a status adequate to the discharge of his multifarious duties.
- (2) The director of Industries should be the undisputed head of his department and should enjoy all the powers and discharge all the functions of a major head of department in the State Government.
- (3) In case the Directorate of Industries has under its charge the large scale sector as well, an Additional Director with almost equal status and powers may be appointed for the medium and large sectors with overall supervision in defined fields only if the volume and nature of work relating to large scale sector clearly warrant it. The responsibility of the Director of Industries in regard to the small sector should be direct and complete and should not be whittled down in any respect.

6. During and after the Second World War, due to shortages of raw materials, power, etc., the Director of Industries and his field officers were looked upon more as regulatory functionaries than as developmental officers. Somehow not much importance was attached to their developmental role as the friend, philosopher and guide of the small entrepreneurs. The issue of a permit or the allotment of a quota was considered sufficient to assure the growth of the unit so favoured. The number of small scale industries increased at a comparatively rapid rate during the three Plan periods largely because of the impetus provided by the Plans. With their eyes on getting hold of scarce raw materials, unfortunately, not a few small units were started just to secure a share in the allocation of scarce materials. Proper utilisation of scarce resources was, therefore, legitimately an important concern of the administration. There was a tendency to distribute scarce materials to as large a number of units as possible with the result that many of them hardly got more than one-sixth or one-tenth of their requirements according to their capacities. The conditions have, however, now changed in some respects with the easing of the supply position. The growth and development in the small scale sector has been uneven, ill-distributed and somewhat haphazard. It is high time, therefore, that the regulatory aspect of the functions of the Directorate of Industries and other connected Government agencies should yield place of pride and precedence to the developmental aspect though

the responsibility of both regulation and development should continue to vest in the same authority.

7. For accelerating the development on modern lines of the small sector, there should be greater emphasis on developmental and extension work. The District Industries Officers and the block level officers concerned with industries should, in the changed circumstances, pay greater attention to, and lay more emphasis on their developmental functions rather than on regulatory functions. It is relevant to mention here that the duties and functions of the District Industries Officer and his staff working in the developmental field would need a review in the context of the establishment of the panchayati raj institutions in the States and the recommendation made in our Report on State Administration that the responsibility for developmental work should be transferred to the panchayati raj institutions headed by the Zila Parishad in the district. A cursory examination of the functions transferred to these institutions would indicate that in most of the States the responsibility for the promotion and development, etc., of cottage and village industries only has been transferred to these bodies. While in most of the States the small scale industries have not been transferred to the control of the Zila Parishad, in a few States like Gujarat and Punjab the promotion of small scale industries has been made the responsibility of the panchayati raj institutions.

8. We have already emphasized the need of bringing about an accelerated growth of small scale industries which will work as feeder/ancillary to the major units in the large scale sector and which will have an inherent vitality and strength of their own. In view of this it is essential that the District Industries Officer and the officials at the Block level should be given the necessary operational freedom, and particularly in technical and regulatory matters they should have complete freedom to make references direct to their departmental officers and obtain instructions or orders in such fields like the provision of scarce raw materials, capital equipment, balancing equipment, etc. Since the time and speed are of the essence in such matters, this bifurcation of their functions and responsibilities is essential. It is, therefore, desirable that the practice in this matter should be uniform in all respects and that the subject of small scale industries should, for the time being, not be under the control of panchayati raj institutions. In the few States where such transfer has been effected the State Governments should review the position and, if the objective in view, namely, the requisite tempo in the growth and development of small scale industries is not being achieved, they should consider whether the responsibility in this field should be entrusted entirely to the officials of the Industries Department.

Recommendation 10

We recommend :

- (1) The officials of the Industries Department working at the district and block level should lay more emphasis on and devote more attention to the developmental aspects of their duties rather than regulatory aspects.
- (2) Normally, in the district, the full responsibility in respect of all aspects of work relating to small scale industries should vest in the District Industries Officer and the officers subordinate to him. In those States, however, where the subject of small scale industries has also been transferred to the panchayati raj institutions, the State Governments concerned should review the position and consider whether the entire responsibility in this field could be entrusted to the officers of the Industries Department.

9. At present, the entrepreneurs and promoters of small scale industries suffer from several handicaps and experience considerable difficulties in their task. These are, *inter alia*, dilatory procedures, the lack of correct information and advice in time, the dearth of expertise, the diffusion of responsibility and the lack of certainty regarding decision-making levels in the governmental organisation. These lacunae in the administrative systems or procedures may act as deterrents to many a prospective entrepreneur. An intending entrepreneur should know exactly where to go and where to seek a solution of his numerous problems. A complex hierarchical organisation and complicated procedures in the Department concerned, are therefore, particularly ill-suited for a developmental organisation like that dealing with small industries. The levels in the administrative structure should, therefore, be kept at the minimum. There should be at the most three levels of responsibility, say the Director of Industries, the District Industries Officer and the Block Industries Officer.

10. Well-defined and specific duties and functions should be entrusted to each level and also specific powers, both administrative and financial, should be delegated to these levels, more or less on the lines recommended by us in our Report on Delegation of Financial and Administrative Powers. This is essential in order to enable these officials to function effectively and any tendency on the part of superior authorities to withdraw the delegations made, either by executive orders under or an informal arrangement, should be strongly curbed. Also, a similar inclination on the part of the lower levels to push up decision-making to the higher levels should be

discouraged. In this connection we would also refer to our observations in Para 5 above and to our recommendation (Recommendation No. 13) in the Report on State Administration that a Working Group should be set up in each State, which does not have such a body, to formulate a scheme of substantial delegation to executive authorities.

11. As regards the terms and conditions of service of the officials of the Directorate of Industries working at the various levels, for instance, the pay scales, the length of service, efficiency bar, etc., it is hardly necessary to dwell on this topic here since this has already been dealt with in some detail in our Reports on State Administration (Para 17—Chapter IX) and Personnel Administration (Chapter IV).

Recommendation 11

We recommend :

- (1) There should be at the most three identifiable levels of responsibility in the Department of Industries.
- (2) Necessary delegation of powers should be effected at all the three levels, clearly defining the duties, responsibilities etc., in accordance with our recommendations in the Report on State Administration.
- (3) Any tendency to informal withdrawal of the delegations made or of the due exercise of authority should be effectively curbed.
- (4) The authorities whom the entrepreneurs have to approach should be reduced to the minimum.

Statistics and Data

12. In the organisational structure of small scale industries, what appears to us to be a serious lacuna is the absence of a suitable and efficient machinery for the collection of data and statistics. The registration of industries has so far been voluntary. Efforts made by different organisations to have even a rough idea of small units have been unsystematic and haphazard and have not come up to requisite standards. It is reported that even the reconciliation of the figures collected by various agencies has been very difficult.

13. Some time ago the Committee on Scarce Raw Materials appointed by the Central Government (generally known as the Lokanathan Committee) observed that during the course of their working they had been painfully aware of the fact that dependable uniform data regarding different small scale industries are not avail-

able over a period of time. They, therefore, made a recommendation that this basic deficiency should be set right as quickly as possible. It is essential that correct and up-to-date information and data about this sector be readily available so that the planning and programming may be undertaken on solid foundations. The Working Group has suggested that it should be the responsibility of the State Directorate of Industries to handle registration, collection of key statistics from small scale units and undertakings and local economic surveys and that these functions should be performed in accordance with the overall scheme approved by the Development Commissioner, Small Scale Industries, in order to ensure uniformity and comparability of data. We are of the view that there should be provision for compulsory registration of establishments in the small scale sector with the Directorate of Industries in the State Governments and that the Directorate should, besides registration, also be entrusted with the function of collecting and compiling periodical information and data from the small scale units. At the district level, this function should be discharged by the District Industries Officers. It is also important that the relevant data in respect of a district should be maintained at the district level and periodically scrutinised and kept up-to-date. For this purpose it is an important requisite that there should be proper liaison and coordination between the officials of the Directorate of Industries and the State Statistical Organisation at various levels and that they should work this scheme in a spirit of good-will and mutual cooperation. Technical guidance in the preparation of design and proforma and in other tasks relating to statistical data would no doubt be provided by the Director of Industries in consultation with the Statistical Organisation at the State level.

Recommendation 12

We recommend :

There should be provision for compulsory registration of establishments in the small scale sector with the Directorate of Industries of the State Government. Besides, the Directorate should also have the responsibility of collecting and compiling periodical information and data from the small scale units. At the district level this function should be discharged by the District Industries Officer under the guidance and supervision of the Director of Industries. There should be proper liaison and coordination in this field between the Directorate of Industries and the State Statistical Organisation.

CHAPTER V

TECHNICAL ASSISTANCE

The Industrial Policy Resolution of 1956 has emphasised that the aim of the State policy would be to ensure that the decentralised sector acquired sufficient vitality to be self-supporting. Some of the serious handicaps from which this sector was suffering were, *inter alia*, the lack of technical assistance and the inadequacy of facilities for tooling and testing, and the removal of these handicaps was considered necessary to increase progressively the efficiency of the small scale sector as a whole. This underlines the importance of proper technical advice and guidance to the entrepreneurs and managers in this sector.

2. At present the technical advice which is accompanied, in many cases, by other services like training, demonstration, etc., is being provided throughout the country by the Central Small Industries Organisation (the Organisation of the Development Commissioner, S.S.I.). The main objective of this programme is to provide directly technical advice and guidance to the small units to enable them to improve their production technology, so that they may be in a position to improve their competitive strength and to acquire sufficient vitality to be self-supporting. This technical service is, at present, being made available mainly through the programme of the Industrial Extension Service administered by the DCSSIO. This service is provided through a number of field organisations, like the Small Industries Service Institutes, Extension Centres, Production-cum-Training Centres, Common Facility Centres, etc. Though the States have hitherto been dependent, by and large, on the services organised by the DCSSIO for the supply of technical services to the small industry, steps have been taken by a number of them to develop their own technical service programmes in the recent past. Such programmes of technical advice and service have been developed by States like Tamil Nadu, Mysore, Maharashtra, U.P., Punjab, etc.

3. The technical advisory service being provided by the SISI's and Extension Centres has developed certain lacunae, for instance, the type of service provided has become outmoded and obsolete and the technical expertise available also is not commensurate with the emerging requirements of the new industries using sophisticated technologies and precision machinery, which will be the main line of development in the future in this sector. For several reasons, including the loss of senior personnel and other administrative

factors, the service provided by the SISI's and Extension Centres is proving inadequate for discharging the Central organisation's responsibilities. Since the small scale units are being increasingly oriented to the production of more sophisticated items, like electronics, plastics, thermo-plastics and other petro-chemical based products, the nature of the technical advisory service required will also have to be of a much higher order and endowed with the knowledge of, and expertise in, the latest technologies. It is, therefore, essential that in the matter of provision of technical assistance, there should be a more clearly defined demarcation of areas between the State Governments and the C.S.I.O.

4. This bifurcation of the functions and responsibilities will be in the best interest of the small sector. It would be eminently desirable that the State Governments should also set up their own technical units, if none exist at present, to provide these technical services in certain lines of production where the level of technology is less sophisticated and of comparatively lower order. It is highly desirable that the responsibility for providing technical advice and guidance in common basic trades, like smithy, carpentry, metal finishing, forging, welding, etc., should be taken over by the Directorates of Industries under the State Governments and that the technical services in respect of the more sophisticated items of production, like electrical and industrial instrumentation, electronics plastics, petro-chemical based products, the formulations of pesticides, insecticides, etc., should be undertaken by the S.I.S.I.'s direct. For this purpose, all the Extension Centres, which are 65 in number, and which are providing expertise in basic trades, like smithy, carpentry, metal finishing, etc., should be taken over and run by the State Governments. It is understood that 15 or 16 such Centres have already been taken over by the State Governments. It is important, however, that the process should be expedited and completed as early as possible. In these Extension Centres, the State Governments could develop their own technical assistance services and other facilities. The transfer of these extension centres to the State Governments should be effected on such terms and conditions as may be mutually agreed upon between them and the C.S.I.O.

5. Having been divested of the responsibility for Extension Centres, S.I.S.I.'s should assume the responsibility of providing technical advice, guidance and expertise of the higher and more sophisticated order to the new industries which have to be developed and taken to the new heights of production and achievement during the years ahead. The proposed Small Scale Industries Commission and the C.S.I.O. should assume the responsibility of directly providing the technical advice in the more sophisticated fields, while, in the matter

of lower technology, they would have to play a coordinating role and also exercise a certain degree of supervision.

6. We have already referred in our earlier chapter (Chapter III) to the setting up of the Small Scale Industries Commission and the strengthening of the organisation of the DCSSI for this purpose. The strengthening of the organisation should be oriented to meeting the needs and requirements of the new technology and to providing the technical personnel of requisite qualifications to the SISI's for undertaking these new tasks. For this purpose, besides the headquarters organisation of DCSSI, the SISI's should also be properly equipped and strengthened by such minimum supporting staff as may be found to be absolutely necessary.

Recommendation 13

We recommend :

- (1) The responsibility for providing technical advice and guidance in common basic trades and in industries with comparatively lower technologies should rest with the State Governments.
- (2) The remaining Extension Centres, run at present by the Central Small Industries Organisation, should be taken over by the State Governments on mutually agreed terms and should be run, in future, by the latter. In the case of sophisticated industries and those requiring more complicated and constantly changing technologies, foreign know-how, etc., the Small Scale Industries Commission should assume responsibility for providing the requisite technical assistance. The proposed Commission should also play a coordinating role in general in the field of technical assistance.
- (3) The SISI's should be well-equipped to give technical advice for the requirements of industries with advanced technology. For this purpose they should be further strengthened by such supporting staff and equipment as may be found to be necessary. They should continue to be under the C.S.I.O.

7. It is difficult, at times, for a Government organisation, on account of its limitations to keep itself abreast of the latest advances in the field of technological development and to function in a dynamic way in an environment of fast-changing technology and industrial processes. One way to deal with this problem is to enable the institutions concerned with the provision of technical assistance to establish close and continuous contact with the

organised industries, both in the private sector and the public sector. Some well thought-out administrative arrangements will have to be devised for the inter-change of information and experience available with these industries in the country as well as with those in other countries, to the mutual benefit of all concerned. Arrangements would have to be made for taking advantage of the offers of generous assistance by some advanced nations in the field of latest technology. However, wherever such foreign collaboration is entered into for acquiring the know-how of the latest technology, there should be an in-built provision for the termination, as early as possible, of such agreements so that the sector may no longer remain dependent on foreign assistance.

8. Besides the technical assistance service provided directly by the SISI's the expertise of the required order should be provided to the small scale sector by devising other ways and means also. The steps in this direction should be supplementary and complementary to the work done by the SISI's. For this purpose, the private consultants and experts could also, with benefit, be utilised on a part-time basis. We agree with the Working Group that necessary arrangements should be made for the provision of high-level technical services on a regional basis by establishing technical panels of part-time consultants of various key industries and that they should be attached to the SISI's at Calcutta, Bombay, Madras and Delhi. The panels of such consultants should render technical advice to the institutes. The terms and conditions on which they would work and the remuneration etc., to be paid them are, however, matters of detail on which we need not dwell.

9. An endeavour should also be made to stimulate interest in such services by private corporate agencies and trade organisations so that they may also be encouraged to take up this task. If necessary, some financial assistance may be provided to such agencies on a selective basis. Probably, our own public sector undertakings or a group of private industries in the related fields could take the initiative in organising competent consultancy/technical services in their respective fields, that is, in the case of their ancillary and feeder industries. These services should, however, be provided strictly on a commercial basis, so that they do not impose a financial burden on these bodies.

10. The States may, however, consider giving subsidies to the actual users in cases of hardship according to a well-considered plan. The criteria for the sanction of subsidy should, generally, be the size of the enterprise, its location and its priority in the overall national economy. Thus, a small enterprise starting its operations in a backward area may, atleast, in the initial stages, be considered eligible for such services almost free or at nominal cost, while the

enterprise with larger investment and better locational advantages should ordinarily be required to pay the normal charges for the services provided.

Recommendation 14

We recommend :

- (1) The services of private consultants and experts may be utilised on a part-time basis in suitable cases to supplement the work done by SIST's direct in this field. The provision of high-level technical/consultancy service on a regional basis should be arranged by establishing technical panels of part-time consultants for various key industries.
- (2) Efforts should also be made to encourage the private corporate agencies, trade associations, etc., to take over part of this work. The public sector undertakings or a group or groups of private industries should be encouraged to develop technical services in the appropriate fields, particularly in the case of their ancillary and feeder industries.

11. Common Facility Centres have been organised in industrial estates and also at a few other suitable locations. But they appear to be far too inadequate to meet the needs of the widely diffused small scale sector covering a large variety of items of production. There is an urgent need for a number of well-equipped laboratories for testing materials etc., and for carrying out inspections which may be made available, to begin with, at the centres of small scale sector industries. It should be the responsibility of the State Governments to provide these facilities over as large an area as possible. Though the Central Government should not directly undertake this activity, it may provide, in suitable cases, technical and financial assistance to the State Governments to establish such institutions. In some big industrial towns, certain essential facilities, like technical institutes, consultancy services and infra-structure, are already available. The State Governments could, therefore, well direct their resources to the regions which are comparatively backward. There are a number of laboratories set up in the country by the Organisations/Departments of the Central Government. These laboratories could also be utilised for undertaking testing and quality control for the benefit of the small sector.

Recommendation 15

We recommend :

Well-equipped laboratories should be established where they do not exist for testing raw materials, components and end

products and also for providing inspection services, etc. The existing laboratories, like the Textile Research Laboratory, etc., even though they serve large scale industries should be utilised to the extent possible. The Central Government laboratories could also be utilised for testing and quality control work, if surplus capacity be available. Ways and means may also be devised for setting up subsidiary laboratories or units affiliated to or associated with the national and regional laboratories at the appropriate level. The S.I.S.I. Workshops and laboratories at metropolitan centres may also be developed into full-fledged regional testing centres to cater to the needs of certain industries. Necessary steps should also be taken to set up process and product-development centres-cum-testing laboratories in trades like rubber, plastics, electrical appliances, etc., at suitable places.

12. Quality control is another aspect of technical assistance which, we are sorry to note, has not claimed the attention of the Government and the small scale enterprise that it deserves. Some entrepreneurs have, no doubt, made some efforts in this direction but much remains to be done. There should be adequate arrangements for quality control and for periodic inspections. The institutions for quality control may, in the beginning, be organised on a voluntary basis, the local trade and small industries associations providing the nuclei for these organisations. The existing laboratories of the various Government departments and agencies may be utilised and their assistance sought. The State Directorates of Industries should encourage well-reputed and well-organised associations to undertake quality control work which should be given recognition for this purpose. They should be provided necessary technical assistance, wherever feasible, and their markings should be recognised if they conform to prescribed standards and specifications. In such cases, however, thorough checks and scrutiny should be exercised by a competent authority before giving recognition and, at subsequent stages also, random checks and inspections may be carried out in order to ensure that there are no deviations from the prescribed specifications. In the case of export-oriented industries, arrangements already exist for quality control and pre-shipment inspection under the aegis of Government departments/Government sponsored organisations and these systems and procedures should also apply to the small sector operating in similar fields. Quality control is an essential requisite, both for export industries and those for indigenous consumption, and there should not obviously be different types of quality control for the two types of products. The actual standards and specifications of quality control have already been prescribed by a number of existing institutions, like the Indian

Standards Institution, the Export Inspection Council, the Textile Committee and other institutions under the Ministry of Foreign Trade, the Agricultural Marketing Adviser's Organisation under the Ministry of Food & Agriculture, etc. A regular system of proper quality control and the requisite inspection should be instituted and necessary arrangements made by the proposed Commission on small scale industries in consultation with the existing quality control institutions working in the same field. It should not be difficult to arrange for inspection, etc., in collaboration and cooperation with them.

Recommendation 16

We recommend :

The Small Scale Industries Commission should make arrangements for organising quality control, inspection, etc., in consultation with the existing institutions in the field. No separate agencies need, however, be set up for the small sector alone. The trade and commerce associations etc., should also be encouraged to set up similar organisations and under adequate supervision.

13. There is a woeful lack of readily available information to small industry on subjects like the techniques of preparing project reports, the viability of new industry, marketing prospects, the availability of adequate raw materials and of the right type of technical personnel, etc., among the prospective entrepreneurs. There is need for Governmental organisations operating in the field or private consultancy services to step into these spheres and undertake the task of preparing project reports for the small scale industries in different regions in the country. These reports should be publicised and made available at a nominal cost to the small sector entrepreneurs or young men wishing to set up a small industry. The consultancy organisations should be encouraged and given financial assistance, if necessary, on a graduated basis by the State Governments for this purpose. The present prospect sheets, the technical plant guides, feasibility studies, etc., prepared by the Development Commissioner's Organisation are not specific or detailed enough and much more detailed information and data may be needed in certain cases by the promoters of industries.

Recommendation 17

We recommend :

Both Government technical organisations and private consultancy services should be utilised for preparing project reports

and technical feasibility reports and taking up surveys, etc., for the benefit and use of the small scale industries. These reports/documents should be made available to them at a low cost. The setting up of private technical consultancy organisations should be encouraged and provided necessary financial incentives/assistance by State Governments.

14. With the gradual emergence of a buyers' market in a number of consumer goods, many small enterprises have now to face formidable competition in the items of daily use and mass consumption which are now also being manufactured progressively by large enterprises. In the circumstances, it appears desirable that Government should come forward to help local entrepreneurs in producing quality products. For such articles it is essential that administrative measures be undertaken for the preparation, under expert advice, of specifications and standards for the manufacturer and these specifications should be given due publicity. These specifications may be in respect of more than one type and quality of goods or in respect of goods intended to cater to the demands and tastes of particular groups or sections of the community. Once such specifications are available, the local entrepreneur will be better equipped and placed in a stronger position to produce goods of acceptable specifications and of marketable quality. The existing agencies like the Indian Standards Institution, the Export Inspection Council and the Agricultural Marketing Adviser's Organisation may, in suitable cases, be utilised for this purpose. Correct specifications and standards should be the real tests of quality and not brand names. The standards and specifications laid down by the authorised agencies and recognised by Government should, if duly publicised, be of considerable help in this direction.

Recommendation 18

We recommend :

Necessary steps should be taken for the preparation, under expert advice, of specifications and standards for the manufacture of commodities of daily use and mass consumption. These specifications should be widely publicised and made available to entrepreneurs.

CHAPTER VI

FINANCIAL ASSISTANCE

Finance is the sinews of industry no less than that of war. The liberal provision of finance, both for capital investment and for short-term working capital, etc., is an important requisite for the rapid growth and sustenance of industry. This assumes greater importance in the case of small scale industry which suffers from serious disabilities, like the initial handicap of weak capital structure and the absence of facility of access to the capital market. While, in the initial stages of its growth, the small scale industry worked with comparatively simple machines and processes and did not require much capital, this sector of industry has now been transformed into a modern mechanised sector, capable of producing consumer and producer goods of good quality and it is venturing also into sophisticated fields of production. In view of this change in the pattern and characteristic features of the small scale sector, both the initial investment and the subsequent credit facilities would be now of a higher order than heretofore. In order, therefore, to achieve the objectives of the policy of securing a rapid and accelerated growth of the small scale sector, it is essential to meet substantially, if not in full, the financial requirements of this sector—both long-term and short-term.

2. The Working Group has gone carefully into the existing position regarding the supply of both long-term and short-term finance and their careful scrutiny discloses features which are disquieting and even disheartening in certain respects. While the Central Government, the State Governments, the Reserve Bank of India and other term-lending institutions have been taking various steps from time to time to provide credit to this sector of the industry, the progress achieved has, according to the Working Group, not been very encouraging and the credit requirements of this sector have not been met to any significant extent. The long-term and medium-term assistance to the small scale sector is being provided, by and large, by the following governmental and institutional agencies :

- (i) Loans under the State Aid to Industries Act/Rules of the State Government.
- (ii) State Financial Corporations.
- (iii) Medium-term loans and instalment credit system of the State Bank of India and more recently of the other commercial (now nationalised) Banks.

Besides, part of the long-term capital needs is also being met by various other measures, for example, participation in equity capital by the State Governments and the State Small Industries Corporations, supply of machinery on hire-purchase basis by NSIC and SSIC's and the provision of factory accommodation and other infrastructure facilities and amenities in industrial estates. Their requirements of working capital and/or short-term loans have been met, though to a limited extent, by institutions like the State Bank of India, the commercial banks and the industrial cooperative banks and other agencies. Besides, there have been in operation credit guarantee schemes which are being operated, one by the Reserve Bank of India and the other by the State Bank of India in collaboration with the National Small Industries Corporation.

3. An assessment of the position made by the Working Group discloses that the progress attained in the field of provision of capital to the small scale industries has not been of significant order under any of these schemes—whether through the State Finance Corporations or equity participation or commercial banks, etc. Thus, it is revealed that during a period of 12 years ending March, 1967, the State Finance Corporations sanctioned loans of the order of Rs. 25.30 crores, while the actual disbursements made were only of the order of Rs. 19.30 crores. While the small scale sector constitutes the majority of the loanees (64%), yet their share in the total loans sanctioned and those disbursed was extremely low, being 21% and 19% respectively. The amount advanced by the State Bank of India and its Subsidiaries towards working capital requirements of small scale industries which stood at Rs. 14 crores on 31st March, 1962, rose approximately to Rs. 86 crores only on 31st March, 1967. This total credit made available by the State Bank is, however, very inadequate in relation to the requirements of that sector, with the result that nearly 85% of the financial needs of the small industries (including the non-registered firms) have to be met from non-institutional investors. The role played by the commercial banks in the provision of credit has, hitherto, been even less significant and it is reported that the total loans advanced by them during the Third Plan period towards the working capital of this sector amounted to a meagre sum of Rs. 51 crores only. In this respect of scheme regarding the credit guarantee operated by the Reserve Bank of India has been a more successful and popular measure and it has given adequate incentive to the commercial and cooperative banks and State Finance Corporations, to advance loans in a big way to small scale industries.

4. All in all, the small scale sector have been getting a very insignificant proportion of their credit requirements from institutional sources. It has been estimated that, on an average, only about 20% of their credit needs are being met by institutional sources, the

balance of 80% being met by the resources of the entrepreneurs themselves, and by financial accommodation from friends, relatives and money-lenders, etc. The small proportion of the financial assistance made available by the institutional agencies to the small scale sector during the Third Five Year Plan is evident from the fact that, while the total assistance sanctioned by various term-lending financial institutions for all types of industries, large, medium and small amounted to Rs. 573 crores, an insignificant amount of the order of Rs. 13 crores only was advanced to the small scale industries by them (i.e., by the State Finance Corporations). This, it will be recognised, is an infinitesimal proportion of the total financial assistance provided by the institutional agencies.

5. Since the Working Group reported, the credit facilities to the small scale sector have been liberalised by the Reserve Bank of India and other institutions in some respects. For example, in the light of a concessional rate of re-finance being charged by the I.D.B.I. (which is a subsidiary of the Reserve Bank of India) for loans to the small scale industries covered under the Credit Guarantee Scheme, the lending rates of most of the fourteen State Finance Corporations were reduced in respect of loans to small scale sector industries in 1968. As a further inducement to the credit institutions to provide more assistance to this sector and with a view to reducing the incidence of guarantee fees which, in many cases, are recovered by the credit institutions from the borrowing parties for payment to the Guarantee Organisation (i.e., the Reserve Bank), the rate of guarantee fee has been reduced from $\frac{1}{4}$ th of 1% to $\frac{1}{10}$ th of 1% per annum with effect from 1st October, 1968. As a result of the concession most of the major commercial banks and the State Finance Corporations have also decided to cover their eligible advances to small scale industries under the scheme. After the imposition of the social control over the banks, a higher target of lending to the small scale industry was indicated by the National Credit Council in 1968. And from the latest indications it appears that the actual performance for the year ending June, 1969 exceeded the targets laid down. In other words, the total credit made available was Rs. 76.4 crores to the small scale industries against a target of Rs. 74 crores. On the eve of the nationalisation of the banks the Prime Minister had indicated that it would be one of the positive objectives of nationalised banks to actively foster the growth of new and progressive entrepreneurs. The above indication of Government's intentions should be a helping factor in the flow of more credit to the small scale sector.

6. The small improvement in the availability of finance does not, however, make any significant difference to the essential features of the situation. The facts mentioned above are sufficient to highlight the enormity of the problem and the leeway that has to be made up

if the long-term and working capital requirements of this sector are to be met to any significant extent. It has to be recognised that the intrinsic resources of the small scale entrepreneur are limited and that while he may be credit-worthy in himself he will find it very difficult to satisfy the normal standards of bank security and guarantees. A means must, therefore, be found for reducing the region of these requirements without entailing undue risks of bad or doubtful debts. In this connection it has been estimated that the requirements of capital by this sector for additional fixed investment would be of the order of Rs. 300 crores at least by the end of the Fourth Plan period. This will be exclusive of the working capital requirements which are estimated to be of the order of Rs. 700 to 800 crores by the end of 1973-74. Another estimate places these requirements at even higher figures—that of fixed capital investment at Rs. 425 to 480 crores and that of working capital requirements at about Rs. 700 crores by 1973-74. In this context and in view of the role and importance of the small scale sector these requirements would appear to be on the conservative side.

7. In view of the enormity of the problem posed above and the requirements of the high order of finances (both for capital investment and working capital) it becomes incumbent on Government to take a bold and imaginative step with foresight, faith and vision of the long-term perspective of this sector's development and attainment of hitherto unimagined heights of performance and service to the country. After giving careful consideration to the views held in various circles—some of which have been reproduced in the Report of the Working Group—we have come to the conclusion that the requirement of the situation would demand the establishment, through legislation by Parliament, of an apex financing institution which may be known as the Small Scale Industries Finance Corporation. This Corporation may be provided with an initial paid-up capital of the order of Rs. 25 crores and it should function as the apex credit and investment institution for this sector. It should assume responsibility both for the provision of long-term credit and for fostering and facilitating the easy availability, through measures like credit guarantee, re-financing, rediscounting, etc., of the working capital or short-term requirements of this sector. While it may consider, in due course, the opening of its branches in the States, it would be preferable if its long-term financing operations are carried out, at least in the initial stages, through the existing institutions, such as, the State Finance Corporations, the branches of the State Bank of India, Cooperative Banks, etc.

8. This Corporation should give selective support to other term-lending institutions by way of additional financial assistance re-financing, market surveys, publicising of market intelligence and

other important information regarding markets and, in particular, export markets. This Corporation may also consider the provision of assistance, in other suitable ways, to the small scale sector, for example, by way of promoting equity participation by the term-lending institutions or by State Finance Corporations and by additional guarantees to encourage the commercial banks to liberalise the procedure and the quantum of assistance for the small scale sector. The creation and establishment on a sound footing of this apex Corporation is being suggested primarily with the view that it may, devote its full and undivided attention to, and concentrate its attention on, the provision of investment capital and working capital requirements of the small scale sector and thereby foster its growth and sustenance. It is felt widely that at present the small scale industries have to run to many institutions, like the State Finance Corporations, Scheduled Banks and other agencies which do not pay concentrated or adequate attention to their requirements and which are at times believed to be less sympathetic towards this sector. The Small Scale Industries Finance Corporation should function as the central and focal institution for the provision of all financial assistance to this sector—both long-term and short-term. In view of the establishment of this apex financing body, it will not be necessary for the Government themselves to take any steps directly to augment the resources of NSIC or of the State Finance Corporations as suggested by the Working Group.

9. The Working Group has suggested that the flow of institutional finance to the small scale sector should be enhanced and that it should get its proper share of the industrial credit more or less in proportion to its contribution to the industrial production and in keeping with its employment potential and its role in the country's economy. This suggestion is unexceptionable and we are generally in agreement with it. A number of other suggestions have been made by the Working Group, namely, that the State Bank of India should adopt a bolder credit policy towards small scale industry, that they should encourage the grant of factory type loans for working capital on a more liberal basis and also allow clean advances in specified cases, etc. These aspects of the matter would no doubt be looked into by the apex corporation, suggested by us, in consultation with the institutions concerned and, therefore it is hardly necessary to make any detailed comments on them.

Recommendation 19

We recommend :

An apex investment and finance institution should be set up to devote its undivided attention to, and concentrate its activities on, the small scale sector. This corporation, to be known

as the Small Scale Industries Finance Corporation, should be set up under an Act of Parliament with a paid-up capital, say, of Rs. 25 crores. It should be the top investment and credit body in respect of the small sector and should be charged with the responsibility of the provision of financial assistance and accommodation, both for long-term capital investment and for working capital needs, to this sector.

10. The Banking institutions and their officers and staff, partly on account of security consciousness and partly because of the traditional ways of thinking and acting, have hitherto been given much higher preference to the large sector, with the result that the growth of credit availability to the small sector has been hampered. The organisational and administrative procedures and practices, the rigidity of attitudes and the lack of sympathetic outlook have all tended to inhibit rapid progress in this matter. Complaints are also made of a lack of will on their part to assist the small sector. It is hoped that with the nationalisation of the major banks, the banking institutions, as a whole, will bring a more helpful and sympathetic attitude to bear upon the needs of this sector.

11. To counter effectively, however, the tendency on the part of financing institutions to have a bias in favour of the bigger units in the small sector, it is necessary that the guide-lines be laid down for financing institutions, with the objective of giving real opportunities to technicians, skilled persons and small men with entrepreneurial and management abilities to enter into the field of small industries. In order more effectively to ensure that the term lending institutions, banks, etc., implement, in proper spirit, these guidelines and instructions, the Corporation should, in their annual report to Government make an assessment of the performance of these institutions, as a whole, in the field of the small scale sector. This report should be laid on the table of the House as soon as possible in accordance with prescribed procedure.

Recommendation 20

We recommend :

In their annual report the Small Scale Industries Finance Corporation should make an evaluation of the performance of the financial institutions in implementing the guidelines and instructions in respect of the small scale sector.

12. The Working Group has suggested that a suitable machinery should be set up at the State level to ensure effective coordination amongst different financing institutions so as to avoid duplication and overlapping and to provide for full requirements of the small scale units on an integrated and equitable basis. We are in general agree-

ment with the suggestion of the Working Group for a coordinating committee. The Coordinating Committee at the State level should have representatives not only from the apex Finance Corporation and other financial institutions (e.g., State Finance Corporations), but also include the representatives of the small scale sector, the Reserve Bank of India and the State Director of Industries. The Committee should be chaired by the Director of Industries.

Recommendation 21

We recommend :

A State Level Committee should be set up for effective coordination among various financing institutions in each State. The success as well as the usefulness of this Committee will depend, to a very large extent, on the right choice of personnel and on all the interests concerned being represented thereon.

13. The banking industry provides primarily for the short-term needs of the entrepreneur, while the long-term and the medium-term accommodation is given by other financing institutions, particularly the State Finance Corporations, specially in smaller towns. The extension of banking facilities to smaller towns and semi-urban centres, without a proper institutional framework for long-term and medium-term loans, is not likely to be of much help for the rapid development of the small scale sector in these areas.

14. The State Finance Corporations cannot be expected to open branches in all towns immediately. The normal banking institutions, may, therefore, be utilised for this purpose. The local banks may act as the agents on behalf of the State Finance Corporations for providing medium and long-term loans. At the district level, there may be a small Standing Committee comprising the Collector, the District Industries Officer, the representatives of local banks and of small scale industries and an officer of the State Finance Corporation. The Collector should be the Chairman of this Committee. The main function of this Committee should be to evolve a coordinated approach and work out a blue-print for meeting the credit needs of the small scale sector in the district.

Recommendation 22

We recommend :

There should be a coordinated approach to the financing of the small scale sector at the district level also. A Standing Committee should be set up at the district level with the Collector as the Chairman and the District Industries Officer, represen-

tatives of local banks and small scale industries and an official of the State Finance Corporation as members. The local banks may also act as agents of the State Finance Corporations for purposes of advancing loans to small entrepreneurs.

15. The rate of interest on loans advanced to the small scale sector today depends on the sources from which the loan is taken. Under the State Aid to Industries Act, the rate of interest ranges from 2½% to 3%, whereas the advances from State Finance Corporations carry a rate of interest which is higher than that on agricultural advances. There is also a feeling in certain sections that not only the present preferential rates of interest to the small scale sector as a whole should be continued but also that there should be differentials of interest rates in the same sector as between the units operating in the more remote, backward or less developed areas and those located in comparatively better environments and surroundings, for example, in close proximity of the metropolitan areas and big industrial complexes. We realise the validity of this line of thinking. We feel, however, that these rates of interest to be allowed to the small scale sector and whether and to what extent there should be differentials in these rates between the units in the same sector, are matters of detail which had better be left to the proposed apex Finance Corporation.

CHAPTER VII

MARKETING AND MARKETING RESEARCH

The sellers' market of the last few years has been steadily giving way to a buyers' market. The initial advantage enjoyed by the small scale industry in regard to the easy marketability of its products, despite competition from the large sector, is also tending to disappear and today it runs a real risk of being edged out of the market by the better organised and more powerful large sector. The tasks involved are, in our view, of much greater magnitude and complexity than in the past and cannot be adequately handled by the marketing wing of the administrative set-up of small scale industries in the States or at the Centre. In addition to strengthening the marketing wing of the Industries Department at the district and State levels, it will be necessary to make a beginning with organisation of a number of emporia or marketing organisations or, alternatively, strengthening the existing handicrafts and handloom emporia, so that they may develop into something akin to departmental stores selling all kinds of goods produced by the entire small sector.

2. In Mexico and certain Latin American countries some chain departmental stores owned by the US firms do organise, we understand, the production of items of small industries and cottage industries by giving them various facilities, e.g., guidance in regard to production techniques, financial support, raw materials, and an assured off-take of their products at pre-determined prices. It seems desirable that in our country also, the big stores and firms as also the sales emporia of the Boards should organise such production and marketing facilities. They should not only provide technological guidance in matters of designs, drawings and proto-types etc., but should also provide finance, raw materials, etc., and assure the sale of their products. The Government organisations concerned, or the Boards should also devote more attention to such sales promotion measures.

3. These departmental stores as also sales emporia set up by the various Boards, like the Handloom Board, should also be reoriented in order to meet the requirements of the situation and they should develop more business-like methods and adopt normal commercial practices. A suitable step forward in the sales promotion can be taken by these emporia if they advance loans, supply raw materials, designs, patterns, etc., directly to the craftsmen and workers and not

deal with them through intermediaries. It is further desirable that these stores should not operate on the basis of supplying the orders only when received but should keep adequate stocks of goods in their shops or stores so that transactions may be concluded forthwith. A vigorous policy of export promotion for developing the sales of these commodities in foreign countries should also be undertaken by the Commission/Boards. For this purpose it is essential that suitable sales centres like those opened by some of our corporations concerned with handicrafts, cashewnuts, etc., should be opened and established in the foreign countries. In those countries these centres should keep adequate stocks and, if necessary, goods can be sent on a consignment basis to be temporarily stored in storage depots at suitable places. These promotional measures may be undertaken in collaboration with the organisations concerned of the Ministry of Foreign Trade. All in all, a vigorous sales promotion programme should be undertaken, both at home and abroad, to enable the small sector to meet the challenge of the competition of the more highly organised and influential large sector.

Recommendation 23

We recommend :

- (a) The functioning of marketing wings of Industries Departments as well as the sales emporia of the various Boards should be re-oriented, so that they work on normal commercial lines and adopt more business-like methods for sales promotion. The emporia should also undertake the organisation of certain facilities like the advance of loans, supply of raw materials, etc., to the craftsmen direct and not deal with them through the intermediaries.
- (b) The Commission/Boards, where they continue to be in existence should undertake vigorous steps towards export promotion in markets abroad by establishing centres in foreign countries.

4. Among the incentives offered to the small sector, mention should be made of the price differential of up to 15 per cent allowed to the products of small units for Government purchases and also reservation of certain goods exclusively for the small scale sector. According to the Working Group, the price preference clause has, in effect, remained inoperative principally because of the unwillingness of purchasing offices to make purchases from the small scale sector at a premium. The Group has suggested that the Government should very clearly lay down that the grant of price preference should be automatic, subject to the competence of the small scale

sector to manufacture the items of stores according to the requirements and quality standards of the indenting departments. Since the small scale units are registered with the purchase organisations of Government like DGS&D, only after their technical competence has been assessed and certified by the SISI's, it should not be necessary for the purchasing department to go into the question of competence all over again at the time of exercising price preference in their favour. We consider fresh administrative instructions should be issued, emphasizing the need of granting price preference expeditiously and in the spirit of the Government policy in the matter.

5. The Group has found that the list of items reserved entirely for small scale industries is actually not of material help to modern small industries, as these items are largely the products of traditional industries. The list does not incorporate a number of items though they are today being manufactured at competitive prices and with good quality standards in the small scale sector. It is, therefore, recommended that a high level expert committee, consisting of technologists, specialists and the Government organisations, be set up to review the existing position and to revise or amend the list of items to be reserved for exclusive purchase from the small scale sector. This list should be subject to review and modification from time to time.

Recommendation 24

We recommend :

The grant of price preference to the small scale units, which is admissible under the Government purchase programme, should be expeditious and prompt, subject to the competence and capacity of the small scale sector to manufacture the items to the quality and in the quantities required. Fresh administrative instructions should be issued emphasising the need for promptness in dealing with such cases and necessary steps taken to ensure compliance. The existing list of items reserved for purchase from the small scale sector should be revised and modified from time to time and this should be undertaken by an expert committee appointed for the purpose.

Market Research:

6. Market research is today an essential requirement, particularly for the small sector. Small entrepreneurs do not generally have adequate information regarding changing market conditions and tastes. Nor do they possess the necessary resources to organise suitable agencies for the purpose. Such research should be undertaken on an adequate scale and on an integrated and coordinated

basis by a central or apex agency. A number of organisations, both governmental or those sponsored by Government, are already working in the field. Their knowledge, experience and expertise may be utilised and their assistance obtained in undertaking marketing research. The proposed S.S.I. Commission should pay adequate attention and address itself to the task of organizing adequate market research and feeding it back by disseminating the information to the small sector in a well-planned and organised manner. There should also be a programme of providing training to entrepreneurs in marketing techniques.

Recommendation 25

We recommend :

In view of the vital importance of marketing research for the small scale sector, the proposed Commission should address itself to the task of organising marketing research, and the results of this research should be made available to the small scale sector. For this purpose the knowledge, experience and expertise of the existing bodies working in this sphere should be fully utilised by the Commission.

CHAPTER VIII

INDUSTRIAL ESTATES

Towards the end of the First Plan it was realised that special measures would have to be taken and new instruments of service created so as to quicken the pace of growth of mechanised small industries. The Industrial Policy Resolution of 1956 referred to the lack of suitable working accommodation as one among the serious handicaps of the small scale producers and also referred to a start having been made with the establishment of industrial and rural community workshops to make good these deficiencies. A planned programme for establishing industrial estates was taken in hand towards the middle of the fifties in consultation with the States. A number of proposals for setting up industrial estates were approved as part of the Plan programmes, and, though the scheme was financed entirely by the Central Government, the selection of sites and the construction of these estates were primarily the responsibility of the State Governments. Those setting up industrial units in these estates were not only provided financial, technological and other assistance, but were also assured of supplies of raw materials on a par with the large sector.

2. In recent years, the concept has undergone some changes. From a concept of industrial estates being fully Government-owned and centrally managed, the new thinking is in favour of limiting the scope of governmental participation to developing the infra-structure in selected localities. The further development of the estates, namely, the civil construction and the subsequent management, is left to the initiative and efforts of the entrepreneurs themselves. Certain industrial estates are also being established as cooperative or joint stock ventures or as subsidiaries of large industrial units.

3. In the past, complaints were made that the industrial estates set up by the Government were in many cases not successful; a number of sheds in many estates remained unoccupied for long periods for various reasons, including the unwise selection of sites on political or other extraneous considerations, the non-availability of entrepreneurial talent, administrative indifference, etc. In the light of the experience of the last few years, it appears desirable that a uniform pattern need not be adopted in this regard. The organizational structure in a particular area or region may be suitably adjust-

ed keeping in view several factors, e.g., the special requirements of an area the economic environment, the availability of skills, talent and enterprise, the level of development of that region, etc. Though the programme has achieved a fair amount of success, the stage has not, in our opinion, arrived when the State Governments should divest themselves of all responsibility for their development in future. It will, therefore, be still necessary to undertake the setting up and construction of industrial estates departmentally by Government in selected cases. The shortcomings of the past, like heavy investment on costly buildings, the unproductive expenditure on administrative blocks or their location in unsuitable or unpromising areas, have, however, to be avoided.

4. We would, in particular, emphasise in the public interest the locational aspects of these estates and enter a caveat against locating them save in exceptionally favourable circumstances within the limits of already over-crowded big cities or metropolitan areas (unless, of course, one be set up as an ancillary or adjunct to a major industrial unit by the latter itself). Their location should be in the vicinity of the new industrial townships, or they may be sited in semi-urban areas with rudimentary infra-structure facilities so that they may themselves develop into the nucleus of an industrial township. A techno-economic survey or a feasibility study should be undertaken at the planning stage and before deciding upon their implementation. In locating them, the authorities concerned should also keep in mind the needs of environmental aspects like the purity of air and water, the pollution of atmosphere etc. It is also important that they should be set up and run entirely by the State Governments and not by any agency of the Central Government. At the district level, their overall control and supervision should be entrusted to the District Industries Officer or another officer of a higher status, if there be one located in a district or region.

5. Simultaneously, Government should also, in suitable cases, assist the industrial estates which are initiated and organised by the industrial cooperatives and the joint stock concerned of genuine small entrepreneurs. Large scale industries should also be encouraged to develop industrial estates near and around them for the production of ancillary or feeder items required for their own production. The provision of other facilities, like technological guidance, supply of raw materials, quality control, inspection, etc., in such ancillary estates should generally be the responsibility of the parent sector.

Recommendation 26

We recommend :

The organizational pattern of an industrial estate in a particular area should be determined having due regard to the

special needs and requirements of that area. In selected cases the setting up and construction of these estates may also be undertaken by State Governments departmentally. These estates should, however, not be generally located within congested areas of big cities but be sited around the new industrial townships, having in mind the environmental aspects. Also, they should be run entirely by the State Governments, through their own agencies.

6. The concept of industrial estates should not be limited to the running and maintenance of industrial activity within the physical limits of an estate. These estates should gradually develop into the nuclei for further development and spread of the small sector. They should be designed and managed in such a way that they may eventually develop into the centres or focal points for providing common service facilities, testing facilities, consultancy services, technological, guidance, etc., to local entrepreneurs. In this way, they may function as the pioneers of new industries in undeveloped areas and as torch bearers of new enlightenment and skills in respect of modern and advanced industrial processes.

Recommendation 27

We recommend :

An industrial estate should be planned with a view to developing it into a focal point of healthy industrial growth in an area rather than as a cluster merely of inward-looking group of production units. It should be so designed and managed that it may later on be in a position to provide necessary common service facilities, technical advice, etc., to the other small scale units in that area.

CHAPTER IX

TRAINING AND MANAGEMENT CONSULTANCY

Training

During the last two decades or so, a large number of technical training institutions have been set up in the country for the provision of training to the small scale sector. They vary in the standards and levels of training given and are even run and managed by more than one ministry. These training facilities would need to be considerably expanded and their coverage extended. The Industrial Training Institutes established over all parts of the country impart technical training to unskilled persons in various skills. The training given in the I.T.I.'s, however, sometimes does not meet adequately the precise requirements of the neighbouring industrial areas. Small enterprises have been found, in many cases, to be unwilling to accept such trainees on an apprenticeship basis, largely because of a feeling among the entrepreneurs that the training given to these trainees is not suitable from their point of view. They prefer, on the other hand, to train selected unskilled workers in their own shops as helpers and then take them in regular employment. To overcome this hurdle, ways and means would have to be devised so that there may be established more intimate and continuous dialogue between the employing industries and the training institutions. The technical training programmes of individual I.T.I.'s should be reviewed from time to time in the light of the requirements of the industries of the area in which they are located and the officers of I.T.I.'s. should be in regular touch with both the established and new entrepreneurs of their region. The representatives of the local small scale industries' associations should be taken into confidence in regard to the courses of training and programmes. They may also be suitably associated with the management of these institutions. This should bring about some improvement in these institutes and the training given should become more purposeful and subserve better the needs of the industries.

Recommendation 28

We recommend :

The training programmes of the Industrial Training Institutes should be reviewed with a view to enabling them better to

serve the needs of the Industries of the area in which they are located. The representatives of small industries' associations may be associated with the management of these institutions.

2. The training of the officers of the Industries Department and small entrepreneur-managers is another important task. The facilities in this regard are, however, rather limited. The Small Industries Extension Training Institute at Hyderabad was established in 1960 with the objective of organising long and short-term courses and seminars in industrial management, extension, education, etc. This Institute has been undertaking the training of the officers of the Central Small Industries Organisation and other Central and State Government Departments in Industrial Management. It has also gone into the area of the training of small industry owners and managers. It permits the participation of managers from the medium and large industries if a sufficient number of trainees from the small sector is not available. This Institute offers three types of training courses: (a) the Industrial Management Course, (b) the Area Development Course and (c) Specialised Courses in different branches of Industrial Management. Besides running the various training programmes itself, it also chalks out the model training courses which other training organisations may adopt.

3. The Institute has done useful work in the field of training and has developed considerable experience and expertise in this line. We understand, however, that the participation in the regular training courses, namely, the Industrial Management and Area Development Courses of the Institute has declined considerably and the courses have lost some of their popularity. This is because the type of training, the syllabi of the courses and other details were not decided upon in mutual consultation with other parties concerned, namely, C.S.I.O. and the State Governments. There should be continuous review and appraisal of the courses in the light of the experience gained so that necessary modifications and adaptations may be made to meet the changing needs of the situation. The time has arrived when the S.I.E.T. Institute should be developed fully into a full-fledged organisation for the training of extension personnel in the small scale industries. The content and scope of its training programme should, therefore, be modified and upgraded so as to meet the changing requirements of the officials from the C.S.I.O. and the State Governments. The training programmes and syllabi should be related to the nature of work and the duties of such personnel. The Institute should also arrange the training of trainers from Small Industries Associations, which may organise their own training courses. It should provide specialised courses in different branches of management and organise training seminars for the senior officers

of the C.S.I.O. and the State Industries Departments. The utility and success of these programmes would depend, to a large extent, on the existence of a spirit of cooperation and mutual understanding among the authorities concerned. There should, therefore, be a continuous dialogue and collaboration among the S.I.E.T., the Development Commissioner, Small Scale Industries, and the State Governments.

4. However, the benefits arising from its training programmes, either through direct participation of small entrepreneur-managers or through training programmes organised by other organisations under its aegis, have been somewhat limited, partly because there are not supporting organisations at the field level in sufficient numbers and partly because of a lack of appreciation of the need for such training programmes. Short-term training courses are being organised by the S.I.S.I.'s in important fields of industrial management to build up a trained set of entrepreneur-managers and to promote the faster growth of small industries. A stage has now reached when, under the guidance of the SIET and in accordance with the programmes developed by that institution, the training of small entrepreneur-managers should be taken up on an enlarged and more comprehensive scale. Some incentives in the shape of stipends, etc., to those receiving training may be considered on a selective basis for the benefit of the small units, particularly the weaker among them which cannot themselves finance such training.

5. There should be in existence training facilities in each State since there is considerable scope for them in a big country like ours. The S.I.S.I.'s which exist in almost every State, should be made squarely responsible for imparting the training in technical plant management and other related fields to the small industrialists/managers. The training should, however, be employment-oriented and so planned and designed as to bear close relationship to the needs and requirements of the industries in the area or region concerned.

6. In regard to the training of the small entrepreneur, an important point to be borne in mind is that he cannot afford to be away from his workshop for a long period, nor can he afford to travel long distance from his home town. A residential training programme conducted by a central institute like the SIET suffers from certain obvious disadvantages so far as the entrepreneur-managers from distant places are concerned. To meet the needs of the situation in such cases, special training programmes like those conducted through small peripatetic teams would need to be organised in various parts of the country either by the SIET or SISI's or, preferably, by the State Directors of Industries. These programmes should be so organised that the training is confined to a few weeks only and is held at a place not

far distant, so that an entrepreneur-manager is enabled to attend such courses without detriment to his work. The period syllabi and venue of the training programme should be suitably adjusted to meet the convenience and needs of the small entrepreneur. Then alone this programme is likely to evoke greater response from him. The training programmes and courses should not be merely a mechanical repetition of the existing ones, but they should provide an opportunity of a continuous two-way flow of information regarding the problems and needs of small industrial units and the adaptation of training programmes to special requirements. The SIET should be the focal point for receiving this feed-back. It should be one of its important duties continuously to review these model training programmes.

Recommendation 29

We recommend :

- (1) There should be regular contact and continuous collaboration between the SIET, the Central Small Industries Organisation and the State Governments in the matter of course contents and the methods and techniques of training so that the participation of the officers connected with industrial development of the Central and State Governments in the training programmes may be more fruitful and purposeful.
- (2) Training of entrepreneurs-cum-managers in the small scale sector should be enlarged, and intensified and its coverage widened. The SISI's which exist almost in every State should be made responsible for giving a comprehensive training in technical, managerial and plant management fields to the small industrialists, etc.
- (3) Short-term training programmes at suitable centres and as close to the centres of the small scale industries as possible should also be organised through peripatetic teams, so that the entrepreneur is enabled to attend such courses without detriment to his work.
- (4) S.I.E.T. should prepare model training programmes for being administered in different areas and for different industries. These programmes should be subjected to continuous review and appraisal in the light of the experience gained. Suitable incentives, such as stipends, may also be given, on a selective basis, to the trainees of particularly weak units which cannot themselves finance such training.

7. There appears to be some controversy about the role of the SIET and the precise scope of its functions. We learn that the research activities of this institution are subjected to criticism on the ground of their not being limited to the problems of the small scale sector. A research organisation should be allowed reasonable freedom to develop its own ethos and so long as the problems of small scale industries are its main focus, restrictive attitudes should not be encouraged. Even though the small scale sector may be the principal concern of this Institute, it will not be desirable or in the best interest of small scale sector itself that it (the SIET) should be unconcerned with or should not keep itself abreast of the latest developments or innovations in the medium and large sector. However, the research programme of the Institute should be so attuned as to subserve the training programme and it should devote more attention and thought to the problems of applied research relating to the small scale industries.

Recommendation 30

We recommend :

The SIET should have reasonable freedom to develop its programme of research, extension and training, provided it keeps its main focus on the problems of small scale sector. Its research programme should be ancillary to the training programme and should be oriented to the applied research problems relating to small industries.

8. The District Industries Officers and the block level Industries Officers are expected to receive some initial training at the State Industries Extension Training Institute or similar other institutions. It is, however, necessary that they periodically attend refresher training courses to keep themselves in touch with the developments and also to become better fitted to discharge their duties in administrative, regulatory and developmental spheres. Training in disciplines like elementary operational research, quality control, etc., to familiarise them with the workshop conditions and problems should also be arranged to refresh and improve their knowledge and expertise.

Recommendation 31

We recommend :

Periodic refresher training courses should be organised for the District Industries Officers and the block level Industries Officers. Training in disciplines like elementary operational

research, quality control, etc., to familiarise them with workshop conditions and problems should be arranged from time to time.

Management Consultancy

9. Management consultancy so far has been taken to mean consultancy in the technical field only, but the scope of this concept has now been enlarged. Management consultancy, as undertaken by the Development Commissioner, Small Scale Industries Organisation, now is in two forms—firstly, a consultancy service for dealing with the specific problems arising during the course of the working of an industry, and secondly, consultancy work through a more intensive and analytical study of the problems relating to finance, production and marketing in the situation of a plant. The consultancy in the second form is known as integrated plant study and this type of consultancy service is being provided in increasing measure by the SISI's. They have been providing the management consultancy services to small entrepreneurs with a view to guiding and assisting them on various management and technical problems arising during the operation of a unit. There is, however, a general lack of appreciation of the need for management consultancy to the small scale sector. There is, according to us, genuine need for establishing more management consultancy units and for enlarging the scope and coverage of consultancy services. The new consultancy units may be organised, either under the aegis of the management associations, or under the wings of the public sector enterprises, particularly for the use of their own ancillary or feeder industries. Their services should be made available to the units of small sector in general and, for this purpose, limited financial assistance may, if necessary, be given in suitable cases and in particular to the weak units in undeveloped areas. The quantum of subsidy should depend on the size and location of the industry and its priority in the overall national plan.

Recommendation 32

We recommend :

The establishment of new management consultancy units by the management associations and the public sector enterprises should be promoted. The services of these consultancy units should be made available to the units in the small sector with the assistance of a subsidy, if necessary, on a graduated basis.

CHAPTER X

RAW MATERIALS AND EQUIPMENT

One of the serious handicaps from which the small scale sector has suffered for long has been the limited availability of raw materials of the right type. In the initial stages, roughly till about 1960, the small units did not, generally speaking, experience shortages of raw materials, as progressively higher allocations were made from year to year on an *ad hoc* basis. However, the sector expanded so rapidly that shortages of various items of raw materials began to be felt in and after 1960-61. The International Perspective Planning Team, which was invited in 1962 to review the progress made by the small scale industries, observed : "Of all the present difficulties, raw material supplies available at competitive prices appear to be the greatest. The evidence points out that the inequities in the distribution of raw materials and imports are so severe that they tend to over-ride all other types of assistance offered to small firms by the Government". According to the Team, while on the average the large firms were allocated 85% of their one-shift requirements, the small sector units received allotments to cover only 33 per cent to 40 per cent of one-shift requirements.

2. In view of the continuance of acute shortage of raw materials, the position was subsequently examined by the Committee on Scarce Raw Materials under the chairmanship of Dr. P. S. Lokanathan in 1964. The Committee drew attention to the invidious distinction obtaining between the large scale and small scale sector in the matter of allocation of scarce raw materials and made a number of recommendations, *e.g.*, the adoption of the principle of equality of treatment to all industrial units producing similar end-products irrespective of the sector, the allocation of scarce materials to be based on the priorities of the end-products and the assessment in a scientific manner of the requirements of the small scale sector, etc.

3. In the period immediately succeeding the devaluation of the rupee in June, 1966, the import policy was liberalised. The new scheme provided for the liberalisation of import of raw materials, components and spares to all the units in the priority industries of the entire industrial sector. The import entitlement was higher in the case of priority industries which were also made eligible to a number of other concessions, *e.g.*, they could import their requirements as frequently as necessary and they had much wider latitude

in regard to the sources and areas of import. However, this liberalisation has not, it has been stated, been of great help to the small scale sector as, out of the 59 industries included therein, only in the case of 32 industries, liberalisation could be of benefit to the small scale sector. Of these 32 industries also, there were only 12 industries in which there was sufficient installed capacity in the small scale sector in which appreciable benefits were derived from the liberalisation of the import needs, etc. The policy in respect of the non-priority sector has been less liberal, since the units engaged in the industries in this sector were eligible to the grant of licence once in a year and they have less freedom of choice in respect of the areas or sources of import. Most of the industries in small sector belonged to this category. On the whole, the priority list covered 80% of the large scale industries, while approximately 40% of the small scale industries were covered by the said list.

4. The Working Group has examined the position in detail and has felt that the present classification, which discriminates against the small scale sector, should be reviewed for the purpose of bringing some of the important small scale industries within the priority group, in view of their importance in terms of contribution to employment and the output of the industrial sector in the country. In the light of the overall availability of foreign exchange and the needs of the priority industries which are stated to be spiralling, it may, however, not be feasible, in the present circumstances, to enlarge the list of priority industries. The suggestion is, however, well worth consideration in more propitious circumstances.

5. The Group has expressed the view that the present discrimination in the matter of classification of the industries ancillary to a priority industry as non-priority is acting as a handicap to the growth of ancillary industries sector. It has suggested that an industry serving as an ancillary of another priority industry should also be classified as a priority industry. We feel that there is considerable validity in this suggestion.

6. In regard to the import of items like copper, zinc, lead, tin, nickel, etc., the present procedure is that the users engaged in the priority industries are permitted to import their requirements direct, while the units engaged in other industries are issued release orders by the licensing authority for the import of material through the Minerals and Metals Trading Corporation. The Group is of the opinion that where the Minerals and Metals Trading Corporation may not be able to effect physical delivery of the material within three months against the release order(s) issued on them, such release order(s) should be automatically converted into import licence(s).

and the actual users should be allowed to import direct. Similarly in respect of steel, galvanised plain sheets, black plain sheets, etc., the present arrangement, under which the State Small Industries Corporation indents in a bulk for the small scale sector, has not been very effective due to delays in the processing of the indents from this sector. The Group feels that in processing the indents, the Joint Plant Committee should keep in view the special interests of the small scale sector in future and expedite decisions without any undue time-lag.

7. The supply position in respect of indigenous raw materials would also deserve a mention here since the availability in particular of such materials to the small sector has not been adequate or satisfactory. The Lokanathan Committee on Scarce Raw Materials had recommended, *inter alia*, that an equitable proportion of indigenous scarce raw materials, such as steel, aluminium, basic organic chemicals and intermediaries, should be set apart for the small scale units at reasonable prices. Though the availability of certain raw materials, like iron and steel, etc., had improved during the period of the recent recession, with the disappearance of recessionary conditions and the upsurge in the domestic demand, there are all-round complaints about the non-availability, or the inadequate supply, of raw materials. In such a state of affairs the small scale sector is likely to suffer comparatively more than the more resourceful and better organised large scale sector. The difficulty of the small scale sector is also accentuated by the fact that some large scale producers of basic materials, semis and intermediates, are also manufacturers of the end-products and they offer stiff competition to the small scale units producing only the final product. In view of the re-emergence of the conditions of raw materials scarcity, many of the Lokanathan Committee's recommendations on scarce raw materials are as valid today as at the time when the report was published and necessary action should be taken to see that in a period of rising shortages of indigenous raw materials, the small scale sector is not hamstrung in its activities and its sustenance is not hampered. For this purpose certain corrective steps have been suggested by the Working Group, for example, the reservation of a percentage of indigenous scarce materials for distribution to the small scale sector, and a ban on the large scale producers of basic materials, e.g., metals, undertaking the manufacture of finished products except for the utilisation of their captive capacity. Its other suggestion is that a certain percentage of the indigenous production of scarce categories of metals and basic materials, for example, E.C. Grade aluminium, should be reserved for distribution to the small scale sector. These and other suggestions made by the Working Group are worthy of consideration by the appropriate authorities.

Recommendation 33

We, therefore, recommend :

- (1) There should be equitable distribution of scarce raw materials between the large scale and the small scale sectors, based on the priority of the end-products.
- (2) The present discrimination in the matter of classification of the industries which serve as ancillary or feeder to a priority industry as non-priority should be removed as early as possible and such ancillary industry should be treated on par with the priority industry concerned in respect of import licences and the allocation of imported raw materials.
- (3) In regard to the import of items like copper, zinc, lead, tin, nickel, etc., the present system should be modified and if the Minerals and Metals Trading Corporation are unable to effect the physical delivery of the material within three months, the release orders should be expeditiously converted into import licences and the actual users allowed to import direct.
- (4) The Joint Plant Committee of the steel industry should take expeditious action in regard to supply of scarce categories of steel to the small scale sector keeping in view the needs and difficulties of this sector and its contribution to industrial production.
- (5) In view of the shortages of indigenous raw materials and basic metals, the Government should take steps to reserve a certain percentage of such scarce materials for distribution to the small scale sector.
- (6) The recommendations of the Lokanathan Committee on Scarce Raw Materials should be examined afresh and appropriate action taken to implement such of their recommendations as have relevance/validity in the existing circumstances.

Import of Capital Goods, Raw Materials, etc.

8. The following procedure is currently being followed in respect of the import applications for capital goods from the small scale units, for value exceeding Rs. 8,000.

- (i) The application is routed through the State Director of Industries concerned who scrutinises the same prior to the grant of essentiality certificate. An important factor

responsible for the delay at this stage is the deficiencies in the applications submitted to him due, to some extent, to the lack of knowledge about the procedures and the Government policies in respect of import of capital goods. On receipt, these applications are examined by the technical officers in the DCSSIO from the point of view of the desirability of import and indigenous angle. These are placed before the Small Scale Industries Committee, consisting of the representatives of the DCSSI and DGTD. In case the Committee finds that the items sought to be imported are available in the country, the applications are forwarded to the CCI&E, recommending rejection and indicating the names of the indigenous manufacturers for the availability of the material. In respect of such items as are not available indigenously and the import of which is cleared by the SSI Committee, the applications are forwarded by the DCSSI to the CCI&E recommending the issue of licence.

- (ii) The application received with the recommendation of the SSI Committee are subjected to a preliminary scrutiny in the office of CCI&E and these are considered by one of the two Committees, viz., (a) the Capital Goods Ad Hoc Committee and (b) the Capital Goods Main Committee, as the case may be, depending on the value of the licence applied for. The applications in respect of value up to Rs. 5 lakhs are placed before the former Committee while those exceeding that limit go before the latter. In considering these applications, the C.G. Ad Hoc Committee takes into consideration the relevant factors, e.g., the availability and allocation of foreign exchange, the source of credit and the priority nature or otherwise of the industry concerned. Many a time the possibility of the import of an item recommended and cleared by the C.G. Ad Hoc Committee is explored against a particular credit desired by the applicant. Sometimes such a possibility is also explored against the credits available with the NSIC.

9. In the case of applications for the import of machinery and machine tools of value not exceeding Rs. 8000 the procedure is somewhat less elaborate. In such cases the application is required to be forwarded along with recommendations by the Director of Industries or other sponsoring authorities, as the case may be, to the port authorities (the regional licensing authorities) who will deal finally with it in the light of the recommendations and in terms of the import policy in force. If the machinery or machine tool sought to be

imported is not licensable under the import policy in force, the sponsoring authority is required to refer the case to the DCSSI for clearance from indigenous angle before making a recommendation. The Director of Industries or the sponsoring authority will, after obtaining necessary clearance from the DCSSI, forward the application with his recommendation to the port authorities. In respect of the imported raw materials, components, spare parts, etc., also a similar procedure has to be adopted.

10. The inadequate availability of the foreign exchange constitutes the core of the licensing difficulties. The procedures and, in particular, the location of the desired or more favoured source of credit inevitably take some time and this partly accounts for the time lag between the approval by the C.G. Committee and the issue of the licence. Another factor inhibiting the availability to the small sector of the credits from more favourable sources, for example, West Germany, United Kingdom, etc., is stated to be the stipulation by the donor countries that only the capital goods and equipment in excess of a certain minimum value could be imported under such credits. The minimum limits of the value of such machines are stated to be impracticable in the case of the small scale sector. The aid-giving countries may have difficulties of their own in accepting the lower limit of value. It will be worthwhile to examine the question whether the aid-giving countries could be persuaded to agree to the relaxation of the existing limits and the fixation of some lower limits in respect of the value of the machinery to be imported by the small scale sector only. It is also considered that the present difficulties and constraints on the small scale sector arising out of the meagre allocation of foreign exchange to it could be removed if a suitable proportion of foreign exchange made available for the industry as a whole is earmarked for this sector. In view particularly of the important socio-economic considerations, this sector should not be denied its legitimate share of the total foreign resources made available to the industrial and allied sectors. Its overall requirements of such resources would not, by their very nature, be of significant order, but the allocation of additional foreign exchange will make a material difference so far as its sustained growth and development is concerned.

11. In respect of the credits made available to the financing agencies like the I.C.I.C.I. it is stated that the small scale sector is not normally able to take advantage of them. Though there are instances, we understand, of this sector having been allowed such credits in the past, the financing agencies are not, by and large, in a position to accommodate the requirements of this sector. It is felt that, if the procedures and rules of these agencies, which inhibit such utilisation, could be suit-

ably modified, the small scale units might be in a better position to meet a part of their requirements for the import of capital goods. This aspect of the matter should also receive due consideration.

Recommendation 34

We, therefore, recommend :

In view of the importance to the national economy of the small scale sector, a suitable proportion of foreign exchange provided for the industrial and allied sectors should be earmarked for the small scale industry. Necessary steps may be taken and, if necessary, the existing systems and procedures suitably modified with a view to ensuring that more foreign credits given by the donor countries through the financing agencies, like the I.C.I.C.I., are made available to the sector.

12. There are widespread complaints that the applications of the small scale sector for the import of capital goods, raw materials, components and spare parts, as also for the scarce indigenous raw materials, have to be processed through a number of committees and Government organisations involving a very time-consuming and frustrating process. We have given very anxious and careful consideration to these aspects since they are of vital importance for the smooth working of the small scale sector and for ensuring its sustenance and growth. We are of the view that considerable improvement could be made in the matter by the adoption of measures on the lines indicated below :

- (i) The rules and regulations relating to the import of capital goods should be widely publicised and any modifications made thereto should also be given wide publicity as quickly as possible. The Directorates of Industries and their officers at all levels should adopt an educative and more active and helpful role in this matter. They should provide necessary assistance and guidance and furnish information, clarification, etc., from time to time to the entrepreneur-applicants so that full data are furnished by them, the deficiencies removed or necessary clarifications given promptly during the course of the processing of the application. This will obviate, to a great extent, the need of unnecessary correspondence and the reference back of the cases to the applicants or lower authorities.
- (ii) We feel that the present limit of Rs. 8,000 in respect of the import of capital goods, which are licensable by the regional licensing authorities, is on the low side, considering, *inter alia*, the great rise in the landed cost of machinery and

plant imported from abroad. We consider that this limit should be raised to Rs. 12,000 so that the port authorities may be in a position to issue licences under their own powers on the recommendation of the Director of Industries or other sponsoring authorities. This may involve some marginal upward adjustment in the ceilings of foreign exchange earmarked for the import of raw materials for the small sector, but in view of the priority of the sector, this should not be grudged.

- (iii) The applications for the import of capital goods exceeding Rs. 8,000 in value, which are at present forwarded by the Director of Industries to the DCSSI, are required, as stated above, to be processed by two committees at the Centre, namely, the SSI Committee in the DCSSIO and the C.G. Ad Hoc Committee in the office of the CCI&E. We feel that, in order to cut short the time involved in consideration, the processing of the applications at the Centre should be made more compact and less diffused and time-consuming. For this purpose the applications forwarded by the State Directors of Industries should be processed as expeditiously as possible in the Office of the DCSSI in consultation with the DGTD, preferably before the next meeting of the SSI Committee. In the normal course, the applications should go direct to the C.G. Ad Hoc Committee from the DCSSI, after consultation with the DGTD, and a meeting of the SSI Committee should not ordinarily be necessary for the consideration of these cases in the DCSSIO. However, if any cases are unduly delayed, these may be brought before the SSI Committee for consideration at its next meeting. All preparatory steps, like the scrutiny from the indigenous angle, the removal of deficiencies or the furnishing of necessary information or clarification by the applicant, etc., should be completed as expeditiously as possible so that the matter may be placed before the C.G. Ad Hoc Committee at the earliest. If necessary, the Committees concerned could meet more frequently or at shorter intervals to deal with the pending cases in order that their processing may be expedited. In respect, however, of the imported raw materials, components and spare parts and of capital goods up to a value of Rs. 12,000 where the regional licensing authorities will, under our proposals, be competent to issue import licences without a reference to the Central organisations, it should be feasible to complete the processing of applications within a reasonable period, say, three months, in the offices concerned.

Recommendation 35

We, therefore, recommend :

- (a) The relevant rules and regulations in relation to the import of capital goods, raw materials, components, etc., and their amendments, if any, should be widely publicised from time to time. The officers of the Industries Departments should provide necessary assistance and guidance to the small scale sector entrepreneurs in this matter.
- (b) In order to ensure speedy and expeditious disposal of cases for the import of capital goods, raw materials, etc., the connected procedures should be simplified and streamlined.
- (c) A time limit of, say, 3 months may be fixed for the disposal of applications in respect of raw materials, and capital goods up to a value of Rs. 12,000 in the organisations concerned, e.g., the Director of Industries, port authorities, etc.
- (d) The powers of the regional licensing authorities to grant licences for the import of capital goods without reference to the Central organisations, should be enhanced from the present limit of Rs. 8,000 to Rs. 12,000.
- (e) The applications forwarded by the State Director of Industries or other sponsoring authorities for import of capital goods should be processed as expeditiously as possible in the office of the DCSSI in consultation with the DGTD. A meeting of the SSI Committee should not ordinarily be required for the consideration of these cases, in the office of the DCSSI. Only if the case are unduly delayed they may be brought before the SSI Committee. In the normal course, the applications should go direct to the C.G. Ad Hoc Committee for disposal.

CHAPTER XI

SUMMARY OF RECOMMENDATIONS

CHAPTER II—A POLICY FOR SMALL INDUSTRIES

1. A clear-cut and new statement of policy on small industries, suitably modifying/implifying the Industrial Policy Resolution of 1956, should be enunciated at the earliest.
2. In line with our recommendation in our Report on Economic Administration in relation to other plan proposals, operational equivalents should be fully worked out for the planned programmes and policies relating to the small sector also. For the success of the operational efforts, a system for periodical review should be instituted to assess and evaluate the progress made.
3. The Industrial Policy for the development of small scale industries should clearly affirm the high priority to be given to the industries in the small scale sector in view of its potential for creating employment opportunities, stimulating entrepreneurship on a wide base and bringing about a more equitable distribution of income and wealth. It is of the utmost importance to ensure healthy growth of the small scale sector, not only to accelerate the industrial and economic progress of the country, but also to provide a broader and economically and socially more justifiable industrial base.
4. For the implementation of the policies in relation to common production programme and the reservation of fields, there should be set up, at the Centre, in consultation with the institutions concerned, a Committee consisting of Joint Secretary-in-charge of the small industries sector in the appropriate Ministry, and the representatives of organizations like the Small Scale Industries Commission (proposed by us below) the Khadi & Village Industries Commission, the Federation of Small Scale Industries Associations, etc. This body should be advisory in character and it should review periodically the progress in implementing the policies in respect of matters mentioned above and suggest remedial measures. Corresponding arrangements

should be made in the States also. In the light of past experience, the policies in respect of common production programme and reservation of fields will need to be enunciated afresh.

CHAPTER III—ADMINISTRATIVE ORGANISATION AT THE CENTRE

5. (1) A Small Scale Industries Commission should be set up under a statute of Parliament in place of the existing Small Scale Industries Board.
 - (2) There should be distribution of work between the proposed Commission and the existing Khadi and Village Industries Commission on functional rather than on area basis. The Small Scale Industries Commission should be charged with the responsibility for the development of the modernized small sector.
 - (3) An inter-Ministerial Committee presided over preferably by a non-official may deal with problems of common interest like common production programme, evaluation and formulation of policy.
 - (4) If considered necessary, the existing all-India Boards like the Handicrafts Board, the Handloom Board, etc. might continue for some time to serve as subsidiaries of the two Commissions in their respective fields. Certain Specialised Boards, like the Coir Board, may, however, be allowed to continue as at present.
6. The organisation of the Development Commissioner, Small Scale Industries, should become a part of the Ministry of Industrial Development, etc., and the DCSSI should function as the Principal Adviser to the Government on the development of the small scale industry. This organisation should be technically strengthened by inducting suitable experts in various specialities.
7. (1) The Industrial Estate at Naini should be transferred to the State Industries Department.
 - (2) The National Small Industries Corporation should be divested of the responsibility of the administration and management of the Proto-type Production-cum-Training

Centres. Their administration should be entrusted to another Central agency, preferably the proposed Commission.

- (3) The National Small Industries Corporation should undertake vigorous marketing assistance programmes. In the initial stages, this activity should not be treated as a commercial activity but as of promotional nature.
 - (4) The National Small Industries Corporation may either have regional offices or preferably enter into arrangement or understanding with the State Governments, under which the Director of Industries will act as their local agent in the hire-purchases cases. There should be the maximum decentralisation of its hire-purchase activity so that journeys of small entrepreneurs to the headquarters of the Corporation may be avoided.
8. On the coming into existence of the Small Scale Industries Commission, there should be a fresh appraisal of the duties and responsibilities of the National Small Industries Corporation so that the overlap of functions or conflicts over the spheres of work are avoided.

CHAPTER IV—ADMINISTRATIVE ORGANIZATION IN STATES

9. (1) The Director of Industries in the State should be a senior officer, and should normally hold his assignment for a period of three to four years. He should have a status adequate to the discharge of his multifarious duties.
- (2) The Director of Industries should be the undisputed head of his department and should enjoy all the powers and discharge all the functions of a major head of department in the State Government.
- (3) In case the Directorate of Industries has under its charge the large scale sector as well, an Additional Director with almost equal status and powers may be appointed for the medium and large sectors with overall supervision in defined fields only if the volume and nature of work relating to large scale sector clearly warrant it. The responsibility of the Director of Industries in regard to the small sector should be direct and complete and should not be whittled down in any respect.

10. (1) The officials of the Industries Department working at the district and block level should lay more emphasis on and devote more attention to the developmental aspects of their duties rather than to regulatory aspects.

(2) Normally, in the district, the full responsibility in respect of all aspects of work relating to small scale industries should vest in the District Industries Officer and the officers subordinate to him. In those States, however, where the subject of small scale industries has also been transferred to the panchayati raj institutions, the State Governments concerned should review the position and consider whether the entire responsibility in this field could be entrusted to the officers of the Industries Department.

11. (1) There should be at the most three identifiable levels of responsibility in the Department of Industries.

(2) Necessary delegation of powers should be effected at all the three levels, clearly defining the duties, responsibilities etc., in accordance with our recommendations in the Report on State Administration.

(3) Any tendency to informal withdrawal of the delegations made or of the due exercise of authority should be effectively curbed.

(4) The authorities whom the entrepreneurs have to approach should be reduced to the minimum.

12. There should be provision for compulsory registration of establishments in the small scale sector with the Directorate of Industries of the State Government. Besides, the Directorate should also have the responsibility of collecting and compiling periodical information and data from the small scale units. At the district level this function should be discharged by the District Industries Officer under the guidance and supervision of the Director of Industries. There should be proper liaison and coordination in this field between the Directorate of Industries and the State Statistical Organisation.

CHAPTER V—TECHNICAL ASSISTANCE

13. (1) The responsibility for providing technical advice and guidance in common basic trades and in industries with

comparatively lower technologies should rest with the State Governments.

- (2) The remaining Extension Centres, run at present by the Central Small Industries Organisation, should be taken over by the State Governments on mutually agreed terms and should be run, in future, by the latter. In the case of sophisticated industries and those requiring more complicated and constantly changing technologies, foreign know-how, etc., the Small Scale Industries Commission should assume responsibility for providing the requisite technical assistance. The proposed Commission should also play a coordinating role in general in the field of technical assistance.

- (3) The SISIs should be well-equipped to give technical advice for the requirements of industries with advanced technology. For this purpose they should be further strengthened by such supporting staff and equipment as may be found to be necessary. They should continue to be under the C.S.I.O.

14. (1) The services of private consultants and experts may be utilised on a part-time basis in suitable cases to supplement the work done by SISI's direct in this field. The provision of high-level technical/consultancy service on a regional basis should be arranged by establishing technical panels of part-time consultants for various key industries.

- (2) Efforts should also be made to encourage the private corporate agencies, trade associations, etc., to take over part of this work. The public sector undertakings or a group or groups of private industries should be encouraged to develop technical services in the appropriate fields, particularly in the case of their ancillary and feeder industries.

15. Well-equipped laboratories should be established where they do not exist, for testing raw materials, components and end products and also for providing inspection services, etc. The existing laboratories like the Textile Research Laboratory, etc., even though they serve large scale industries, should be utilised to the extent possible. The Central Government laboratories could also be utilised for testing and quality control work, if surplus capacity be available.

Ways and means may also be devised for setting up subsidiary laboratories or units affiliated to or associated with the national and regional laboratories at the appropriate level. The S.I.S.I. Workshops and laboratories at metropolitan centres may also be developed into full-fledged regional testing centres to cater to the needs of certain industries. Necessary steps should also be taken to set up process and product-development centres-cum-testing laboratories in trades like rubber, plastics, electrical appliances, etc., at suitable places.

16. The Small Scale Industries Commission should make arrangements for organising quality control, inspections, etc., in consultation with the existing institutions in the field. No separate agencies need, however, be set up for the small sector alone. The trade and commerce associations etc. should also be encouraged to set up similar organisations and under adequate supervision.
17. Both Government technical organisations and private consultancy services should be utilised for preparing project reports and technical feasibility reports and taking up surveys, etc., for the benefit and use of the small scale industries. These reports/documents should be made available to them at a low cost. The setting up of private technical consultancy organisations should be encouraged and provided necessary financial incentives/assistance by State Governments.
18. Necessary steps should be taken for the preparation, under expert advice, of specifications and standards for the manufacture of commodities of daily use and mass consumption. These specifications should be widely publicised and made available to entrepreneurs.

CHAPTER VI—FINANCIAL ASSISTANCE

19. An apex investment and finance institution should be set up to devote its undivided attention to, and concentrate its activities on, the small scale sector. This corporation, to be known as the Small Scale Industries Finance Corporation, should be set up under an Act of Parliament with a paid-up capital, say, of Rs. 25 crores. It should be the top investment and credit body in respect of the small sector and should be charged with the responsibility of the provision of

financial assistance and accommodation, both for long term capital investment and for working capital needs, to this sector.

20. In their annual report the Small Scale Industries Finance Corporation should make an evaluation of the performance of the financial institutions in implementing the guidelines and instructions in respect of the small scale sector.
21. A State Level Committee should be set up for effective coordination among various financing institutions in each State. The success as well as the usefulness of this Committee will depend, to a very large extent, on the right choice of personnel and on all the interests concerned being represented thereon.
22. There should be a coordinated approach to the financing of the small scale sector at the district level also. A Standing Committee should be set up at the district level with the Collector as the Chairman and the District Industries Officer, representatives of local banks and small scale industries and an official of the State Finance Corporation as members. The local banks may also act as agents of the State Finance Corporations for purposes of advancing loans to small entrepreneurs.

CHAPTER VII—MARKETING AND MARKETING RESEARCH

23. (1) The functioning of marketing wings of Industries Departments as well as the sales emporia of the various Boards should be re-oriented, so that they work on normal commercial lines and adopt more business-like methods for sales promotion. The emporia should also undertake the organisation of certain facilities like the advance of loans, supply of raw materials, etc., to the craftsmen direct and not deal with them through the intermediaries.
- (2) The Commission/Boards, where they continue to be in existence, should undertake vigorous steps towards export promotion in markets abroad by establishing centres in foreign countries.
24. The grant of price preference to the small scale units, which is admissible under the Government purchase programme, should be expeditious and prompt, subject to the compe-

tence and capacity of the small scale sector to manufacture the items of the quality and in the quantities required. Fresh administrative instructions should be issued emphasising the need for promptness in dealing with such cases and necessary steps taken to ensure compliance. The existing list of items reserved for purchase from the small scale sector should be revised and modified from time to time and this should be undertaken by an expert committee appointed for the purpose.

25. In view of the vital importance of marketing research for the small scale sector, the proposed Commission should address itself to the task of organising marketing research, and the results of this research should be made available to the small scale sector. For this purpose the knowledge, experience and expertise of the existing bodies working in this sphere should be fully utilised by the Commission.

CHAPTER VIII—INDUSTRIAL ESTATES

26. The organisational pattern of an industrial estate in a particular area should be determined having due regard to the special needs and requirements of that area. In selected cases the setting up and construction of these estates may also be undertaken by State Governments departmentally. These estates should, however, not be generally located within congested areas of big cities but be sited around the new industrial townships, having in mind the environmental aspects. Also, they should be run entirely by the State Governments, through their own agencies.
27. An industrial estate should be planned with a view to developing it into a focal point of healthy industrial growth in an area rather than as a cluster merely of inward-looking group of production units. It should be so designed and managed that it may later on be in a position to provide necessary common service facilities, technical advice, etc., to the other small scale units in that area.

CHAPTER IX—TRAINING AND MANAGEMENT CONSULTANCY

28. The training programmes of the Industrial Training Institutes should be reviewed with a view to enabling them better to serve the needs of the industries of the area in which they are located. The representatives of small industries'

associations may be associated with the management of these institutions.

29. (1) There should be regular contact and continuous collaboration between the SIET, the Central Small Industries Organisation and the State Governments in the matter of course contents and the methods and techniques of training so that the participation of the officers connected with industrial development of the Central and State Governments in the training programmes may be more fruitful and purposeful.

(2) Training of entrepreneurs-cum-managers in the small scale sector should be enlarged and intensified and its coverage widened. The SISI's which exist almost in every State should be made responsible for giving a comprehensive training in technical, managerial and plant management fields to the small industrialists, etc.

(3) Short-term training programmes at suitable centres and as close to the centres of the small scale industries as possible should also be organised through peripatetic teams, so that the entrepreneur is enabled to attend such courses without detriment to his work.

(4) S.I.E.T. should prepare model training programmes for being administered in different areas and for different industries. These programmes should be subjected to continuous review and appraisal in the light of the experience gained. Suitable incentives, such as stipends, may also be given, on a selective basis, to the trainees of particularly weak units which cannot themselves finance such training.

30. The SIET should have reasonable freedom to develop its programme of research, extension and training, provided it keeps its main focus on the problems of small scale sector. Its research programme should be ancillary to the training programme and should be oriented to the applied research problems relating to small industries.

31. Periodic refresher training courses should be organised for the District Industries Officers and the block level Industries Officers, Training in disciplines like elementary operational research, quality control, etc., to familiarise them

with workshop conditions and problems should be arranged from time to time.

32. The establishment of new management consultancy units by the management associations and the public sector enterprises should be promoted. The services of these consultancy units should be made available to the units in the small sector with the assistance of a subsidy, if necessary, on a graduated basis.

CHAPTER X—RAW MATERIALS AND EQUIPMENT

33. (1) There should be equitable distribution of scarce raw materials between the large scale and the small scale sectors, based on the priority of the end-products.
- (2) The present discrimination in the matter of classification of the industries which serve as ancillary or feeder to a priority industry as non-priority should be removed as early as possible and such ancillary industry should be treated on par with the priority industry concerned in respect of import licences and the allocation of imported raw materials.
- (3) In regard to the import of items like copper, zinc, lead, tin, nickel, etc., the present system should be modified and if the Minerals & Metals Trading Corporation are unable to effect the physical delivery of the materials within three months, the release orders should be expeditiously converted into import licences and the actual users allowed to import direct.
- (4) The Joint Plant Committee of the steel industry should take expeditious action in regard to supply of scarce categories of steel to the small scale sector keeping in view the needs and difficulties of this sector and its contribution to industrial production.
- (5) In view of the shortages of indigenous raw materials and basic metals, the Government should take steps to reserve a certain percentage of such scarce materials for distribution to the small scale sector.
- (6) The recommendations of the Lokanathan Committee on Scarce Raw Materials should be examined afresh and

appropriate action taken to implement such of their recommendations as have relevance/validity in the existing circumstances.

34. In view of the importance to the national economy of the small scale sector, a suitable proportion of foreign exchange provided for the industrial and allied sectors should be earmarked for the small scale industry. Necessary steps may be also taken and, if necessary, the existing systems and procedures suitably modified with a view to ensuring that more foreign credits given by the donor countries through the financing agencies, like the I.C.I.C.I., are made available to the sector.
35. (1) The relevant rules and regulations in relation to the import of capital goods, raw materials, components, etc., and their amendments, if any, should be widely publicised from time to time. The officers of the Industries Departments should provide necessary assistance and guidance to the small scale sector entrepreneurs in this matter.
- (2) In order to ensure speedy and expeditious disposal of cases for the import of capital goods, raw materials, etc., the connected procedures should be simplified and streamlined.
- (3) A time limit of, say, 3 months may be fixed for the disposal of applications in respect of raw materials, an capital goods up to a value of Rs. 12,000 in the organisations concerned, e.g., the Director of Industries, port authorities, etc.
- (4) The powers of the regional licensing authorities to grant licences for the import of capital goods without reference to the Central organisations, should be enhanced from the present limit of Rs. 8,000 to Rs. 12,000.
- (5) The applications forwarded by the State Director of Industries or other sponsoring authorities for import of capital goods should be processed as expeditiously as possible in the office of the DCSSI in consultation with the DGTD. A meeting of the SSI Committee should not ordinarily be required for the consideration of these cases, in the office of the DCSSI. Only if the cases are unduly delayed, they may be brought before the SSI Committees.

In the normal course, the applications should go direct to the C.G. Ad Hoc Committee for disposal.

Sd/- K. Hanumanthaiya
Chairman

Sd/- H. V. Kamath
Member

Sd/- Debabrata Mookerjee
Member

Sd/- T. N. Singh
Member

Sd/- V. Shankar
Member

Sd/- N. S. Pandey

Joint Secretary

New Delhi December 24, 1969.

LIST OF ABBREVIATIONS

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| 1. CC I & E | Chief Controller, Imports & Exports. |
| 2. CG AD Hoc Committee | Capital Goods Ad Hoc Committee. |
| 3. CG Main Committee | Capital Goods Main Committee. |
| 4. CSIO | Central Small Industries Organisation. |
| 5. DCSSI | Development Commissioner, Small Scale Industries. |
| 6. DCSSIO | Development Commissioner, Small Scale Industries Organisation. |
| 7. DGSD | Director General, Supplies & Disposals. |
| 8. DGTD. | Director General, Technical Development. |
| 9. ICICI | Industrial Credit and Investment Corporation of India. |
| 10. IDBI | Industrial Development Bank of India. |
| 11. ITI | Industrial Training Institute. |
| 12. NSIC | National Small Industries Corporation. |
| 13. PTC | Proto-type Production-cum-Training Centre. |
| 14. SFC | State Finance Corporation. |
| 15. SIET | Small Industries Extension Training Institute. |
| 16. SISI | Small Industries Service Institute. |
| 17. SSI Commission | Small Scale Industries Commission. |
| 18. SSI Committee | Small Scale Industries Committee. |
| 19. SSIC | State Small Industrial Corporation. |