UNIT-2

SMALL SCALE INDUSTRIES

INTRODUCTION

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries are facing both internal competition as well as external competition.

There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labor.

Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments.

Definition:

The official definitions of a small scale unit are as follows:

(i) Small-Scale Industries:

These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

(ii) Ancillary Industries:

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

(iii) Tiny Units:

These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located in towns with population less than 50,000.

CHARACTERISTICS OF SMALL-SCALE INDUSTRIES:

(i) Ownership:

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

(ii) Management and control:

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is activity involved in all the decisions concerning business.

(iii) Area of operation:

The area of operation of small units is generally localized catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

(iv) Technology:

Small industries are fairly labor intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labor.

(v) Gestation period:

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

(vi) Flexibility:

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions.

They are more flexible to adopt changes like new method of production, introduction of new products etc.

(vii) Resources:

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labor and raw materials.

(viii) Dispersal of units:

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

ROLE PLAYED BY SSI IN THE DEVELOPMENT OF INDIAN ECONOMY

In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities.

It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector.

This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry has been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

The following are some of the important role played by small- scale industries in India.

1) Employment generation:

Small scale industries employ labor intensive technology and hence generate more employment opportunities. Small scale industries generate opportunities for self employment of technically qualified persons, artisans and professionals. A major problem confronting our country is of increasing pressure of population on land and the need to generate more employment avenues. A given amount of capital invested in a small scale industry provides more employment than the same amount of capital invested in a large scale industry. in a country like India confronted with the twin problems of unemployment and scarcity of capital, it is only the small scale industry which can solve these problems. Small scale industries can be located anywhere and hence can provide employment to workers near their homes, more work for the under employed and additional work for the formers when they are idle.

2) Self Employment:

Small scale sector provides numerous opportunities for self employment and hence is more suited for our country faced with the major problem of unemployment. A self employed entrepreneur is the master of his own show and he thus gets opportunity for doing something creative, new and different. He instead of seeking job for himself, provides employment to others working for himself creates personal interest and successful accomplishment of the task generates job satisfaction and sense of attainment.

3) Optimum use of capital:

Small scale enterprises require relatively lesser amount of capital as compared with large scale enterprises. In the context of India economy where capital is scarce, small scale sector can act as a stabilizing force by providing high output capital ratio as well as high employment capital ratio. Moreover due to shorter gestation period small scale units provide early returns to the entrepreneurs. Small scale units help in capital formation by mobilizing idle and small scattered saving of the people and put these into productive use by investment in small scale units P.C. mahalanobis has rightly observed 'in view of the meagerness of capital resources there is no possibility in the short run for creating much employment through the factory industries (large scale). Now consider the household (or) cottage industries. They require very little capital. About 6 (or) 7 hundred rupees would get an artisan family started. With any given investment, employment possibilities would be 10 (or) 15 times greater in comparison with corresponding factory industries'.

4) Facilitate entrepreneurial development:

Small scale sector helps in entrepreneurial development. The unit provides self employment to educated unemployed and reduces their overdependence on the government. It also generates feeling of self reliance amongst the people. This sector generates more employment opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities to a large number of entrepreneurs, who are scattered over a wide territory. Small scale industries on the other hand mobilize such entrepreneurial skills more effectively and put these into productive use.

5) Use of local resources:

Small scale enterprises employ local resources like raw material, saving, entrepreneurial skill more effectively. In the absence of these enterprises these resources are likely to remain unutilized. Thus on one hand small scale sector ensures better use of the local resources and on the other generate employment opportunities and income for the local population.

6) Balanced regional development:

Large scale units are normally concentrated at selected places and these results in generation of employment opportunity, income and development of only these places. Whereas small scale industries utilizes local resources and promote decentralized development of industries. It is only through dispersal of industries in rural and backward areas that the objective of balanced regional development can be achieved. Small scale by providing employment to people in rural & backward areas helps in solving the problems of industries slums, congestion and pollution in industrial towns. Small scale sector by generating employment and income in backward areas helps in raising standard of living of people.

7) Conservation of foreign exchange:

Small scale industries help in saving precious foreign exchange. Firstly small scale unit utilize local resources like raw material and available machinery and they are not dependent on costly imports. These units also produce those products which were earlier being imported. Secondly there has been considerable increase in exports from the small scale sector over years and presently this sector contributes about 35 % to India's total exports, thus earning precious foreign exchange for the country.

8) Equitable spread of income and wealth:

Small scale industries help in the development of socialistic pattern of society by ensuring equitable distribution of income and wealth. This sector inculcates the spirit of entrepreneurship amongst people thereby providing them self employment with limited means. Ownership of small scale industries is widespread and offer more employment potential as compared with large scale industries. Large scale industries result in concentration of income and wealth in a few hands and that too at selected places whereas small scale industries ensure equitable spread of income & wealth amongst all and that too at all places. Small scale industries thus promote the objective of social justice.

9) Supporting large scale industries:

Small scale industries can facilitate growth and development of large scale industries by providing various parts, components and accessories to large scale industries. Small scale units serve as ancillaries to large units by playing a complementary role.

10) Contribution towards national economy:

Small scale industries have made rapid strides over years and can produce wide range of products having mass consumption. More than 5000 different products are being manufactured in the small scale sector. This sector is helping in realization of the objective (or) export promotion and import substitution. Nearly 50% of the output of the manufacturing sector in our country is produced by small scale sector. The small scale sector thus plays a very important role in the economic development of our country.

OWNERSHIP PATTERNS

SOLE PROPRIETORSHIP

A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual or one legal person and in which there is no legal distinction between the owner and the business.

Advantages of Sole Proprietor Form of Business:

Easy formation:

The formation of sole proprietorship business is very easy and simple. No legal formalities are involved for setting up the business excepting a license or permission in certain cases. The entrepreneur with initiative and certain amount of capital can set up such form of business.

Better control:

The entrepreneur takes all decisions affecting the business. He chalks out the plan and executes the same. His eyes are on everything and everyone. There is no scope for laxity. This results in better control of the business and ultimately leads to efficiency.

Promptness in decision-making:

When the decision is to be taken by one person, it is sure to be quick. Thus, the entrepreneur as sole proprietor can arrive at quick decisions concerning the business by which he can take the advantage of any better opportunities.

Secrecy:

Each and every aspect of the business is looked after by the proprietor and the business secrets are known to him only. He has no legal obligation to publish his accounts. Thus, the maintenance of adequate secrecy leaves no scope to his competitors to be aware of the business secrets.

Flexibility in operations:

The sole proprietorship business is undertaken on a small scale. If any change is required in business operations, it is easy and quick to bring the changes.

Scope for personal touch:

There is scope for personal relationship with the entrepreneur and customers in sole proprietorship business. Since the scale of operations is small and the employees work under his direct supervision, the proprietor maintains a harmonious relationship with the employees. Similarly, the proprietor can know the tastes, likes and dislikes of the customers because of his personal rapport with the customers.

Easy dissolution:

Like that of formation, the dissolution of the sole proprietorship is also very easy. Since the proprietor is the supreme authority and no regulations are applicable for closure of the business he can dissolve his business any time he likes.

Socially desirable:

New and small entrepreneurs can take up business on small- scale basis. There will be no scope for concentration of wealth in few hands. Sole proprietorship continues its operation in almost each and every area of business activity and caters to the need of the society. Further, it provides ample opportunities for large-scale self-employment for rural and less skilled personnel. Thus, it is socially desirable.

Disadvantages of Sole Proprietor Form of Business:

The sole proprietorship business is not free from criticism. It suffers from certain limitations and drawbacks, because of its very nature and scope of operations. These points may be duly taken care of while entrepreneur adopting this mode of business.

Limited resources:

The financial resources of any small entrepreneur as an individual are limited. He mainly finances from his own savings or borrows from financial institutions, friends and relatives as per his capacity. Thus, limited resource is the major drawback of this form of business.

Limited managerial capability:

Modern business requires updated managerial skills in each and every sphere of activity. We cannot hope a single individual to possess all the managerial talents necessary to carry on a business efficiently. The limited financial resources of the sole proprietorship are a hindrance to hire the services of managers with expertise in different areas, thereby the growth of the business.

Unlimited liability:

Since the liability of the sole proprietor is unlimited, the private properties of the proprietor is also at risk. When the business fails, the private properties of the owner are utilized to pay off the business debts. Thus, the entrepreneur must have to look this aspect carefully.

Uncertainty of continuity:

The continuity of the business is uncertain because the business may come to an end due to the incapacity or death of the proprietor. Even if at all the business passes on to the successor of the proprietor, it is unlikely that they may possess the business acumen like that of the proprietor. The discontinuance of the business is a social loss.

Not suitable for large-scale business:

The limited financial resources, limited managerial capability of the proprietor, risk to the private property etc. makes the so proprietorship business unsuitable for large-scale business. This system of business cannot afford for large-scale operation

PARTNERSHIP FIRM

Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Advantages

1. Easy formation:

Formation of partnership is easy. Even the registration of a firm is optional; hence no legal formalities are required.

2. Better Capital:

As the partnership is formed by two or more persons, capital contribution is higher and there are greater managerial abilities.

3. Credit-worthiness:

As the liability of the partner is unlimited, severally and jointly, careful management of business is ensured and this increases the credit-worthiness of the firm which in turn enables to obtain credit from third parties easily.

4. Flexibility:

Partnership business is flexible, as suitable changes can be easily introduced whenever necessary.

5. Sharing of risks:

Risk does not fall on one individual's shoulder in this type; it is shared by all the partners.

6. Sound decision:

As the decisions are taken by two or more persons collectively, it is likely to be more balanced.

Disadvantages:

1. Lack of co-operation:

As there are more than two persons in the business, unity among them becomes utmost essential. If unity is not secured, disputes arise and disturb the smooth working of the business.

2. Limited capital:

As there is limitation on the total number of partners, the capital that can be raised becomes limited.

3. Lack of public confidence:

There is no Governmental supervision over the affairs of the business of a partnership and publishing accounts is also not necessary. Hence, public may not have full confidence in them.

4. Unlimited liability:

The liability of the partners is unlimited, jointly .and severally. This discourages many people from becoming the partners of the firm.

5. Non transferability of interest:

A partner cannot transfer his interest to a third party without consent of other partners. This blocks the money invested by a person and it may discourage many investors from becoming partners of the firm.

6. Lack of faith:

Utmost good faith is the essence of partnership. If a partner acts dishonestly, it may land all others in trouble, because he is an agent of the firm.

JOINT STOCK COMPANY

"A joint stock company (JSC) is a type of business partnership in which the capital is formed by the individual contributions of a group of shareholders. Certificates of ownership or stocks are issued by the company in return for each contribution, and the shareholders are free to transfer their ownership interest at any time by selling their stockholding to others."

Advantages of Joint Stock Company:

(1) Huge resources:

A company can raise large amount of resources from the general public by issuing shares. Since, there is no maximum limit of the number of shareholders ii case of public company, fresh shares can be issued to meet the financial requirement. Capita can also be obtained by issuing debentures and accepting public deposits.

(2) Limited liability:

The liability of the shareholders is limited to the extent of the face value of the shares held by them or guarantee given by them. The shareholders are not liable personally for the payment of debt of the company. Thus, limited liability encourages the investors to put their money in the shares of the company.

(3) Efficient management:

A company can hire the services of professional manager for its functional areas because of its financial strength. The directors who look after the management of the company are generally experienced and persons of business acumen Therefore, the management of a company is sure to be efficient.

(4) Scope for expansion:

A company can generate huge financial resources by issuing shares and debentures to finance new projects. Companies also transfer a portion of their profit to reserve which can be utilised for future expansion. The managerial capabilities a the disposal of a company helps it for planning the future expansion and growth.

(5) Public confidence:

A company submits required information to the Government and other authorities at regular intervals. The accounts of the company are audited by chartered accountants and also published for the information of the stakeholders and others. This enables a company to enjoy the trust and confidence of the public.

(6) Diffused risk:

The entire business risk of a company is distributed over a large number of shareholders. Thus, the risk is reduced for each shareholder. No shareholder is burdened with more than what he has paid as the price of shares hold. No personal property will be attached for the same.

Disadvantages of Joint Stock Company

Despite the above advantages, the company form of organization also suffers from certain demerits. The following are some of the important demerits of a company which every entrepreneurs should know while going for selection of type of business.

(1) Difficulty in formation:

The formation of a joint stock company is very difficult, time taking and expensive as compared to any other form of organization. Conceiving the very idea and getting it implemented is very difficult process. Preparation of the basic documents like memorandum of Association and Articles of Association, fulfilling legal formalities as per the Act and getting the business registered needs lot of time, money and expertise.

(2) Delay in decision-making:

The Board of Directors of the company decides about the policies and strategies of the company. Certain decisions are taken by the shareholders. The meeting of the directors or the shareholders cannot be held at any time as and when required. Thus, the decision making process is usually delayed. The delay in decision-making may result in losing some business opportunities.

(3) Separation of ownership and management:

The company is not managed by the shareholders but by the directors who are the elected representatives of the shareholders. The directors and managers may lack the personal initiative and motivation to manage the company efficiently as the shareholders (owners) themselves would.

(4) Lack of secrecy:

Each and every business strategy is discussed in the meeting of the Board of Directors. The annual accounts are published and compliance to Government, Tax authorities etc. are made at regular intervals. Therefore, it is very difficult to maintain business secrecy in a company form of organization in comparison to sole proprietorship and partnership.

(5) Fraudulent management:

The possibility of starting a bogus company, collecting huge sums of money and subsequently bringing liquidation of the company is not ruled out. The promoters with an intention to defraud may indulge in such practices. The directors and managers may function for their personal gain overlooking the interest of the company.

(6) Excessive Government regulations:

A company functions under too much of regulations of the Government. Reports are to be filed and compliance are made at regular intervals to appropriate authorities failing which penalty is imposed. A considerable time and money of the company is involved in the process of regular compliance.

CO OPERATIVE SOCIETY

The Co-operative Society is yet another form of business organization. It is formed in a similar manner like a Joint Stock Company. It is a unique form of organization. It is started with the motive of organizing and rendering services to its members.

Advantages of Cooperative Society

1. Easy to form:

The formation of a cooperative society is very simple as compared to the formation of any other form of business organizations. Any ten adults can join together and form a cooperative society. The procedure involves in the registration of a cooperative society is very simple and easy. No legal formalities are required for the formation of cooperative society.

2. No obstruction for membership:

Unless and otherwise specifically debarred, the membership of cooperative society is open to everybody. Nobody is obstructed to join on the basis of religion, caste, creed, sex and color etc. A person can become a member of a society at any time he likes and can leave the society when he does not like to continue as; member.

3. Limited liability:

In most cases, the liabilities of the members of the society are limited to the extent of capital contributed by them. Hence, they are relieved from the fear of attachment of their private property, in case of the society suffers financial losses.

4. Service motive:

In Cooperative society members are provided with better good and services at reasonable prices. The society also provides financial help to its members < the concessional rates. It assists in setting up production units and marketing of produces c small business houses so also small farmers for their agricultural products.

5. Stability and continuity:

A cooperative society cannot be dissolved by the death insolvency, lunacy, permanent incapability of the members. Therefore, it has stable life are continues to exist for a longer period. It has got separate legal existence. New members m< join and old members may quit the society but society continues to function unless are otherwise all members unanimously decided to close the same.

6. Surplus shared by the members:

The society sells goods to its members on a nominal profit. In some cases, the society sells goods to outsiders. This profit is utilized for meeting the day-to-day administration cost of the society. The procedure for distribution of profit that some portion of the surplus is spent for the welfare of the members, some portion kept reserve whereas the balance shared among the members as dividend on the basis of these purchases.

Disadvantages of Cooperative Society:

Despite many an advantages, the cooperative society suffer from certain limitations c drawbacks. Some of these limitations, which a cooperative form of business has, are as follows:

1. Limited resources:

Cooperative society's financial strength depends on the cap contributed by its members and loan raising capacity from state cooperative banks. The membership fee is limited for which they are unable to raise large amount of resources as their members belong to the lower and middle class. Thus, cooperative^ are not suitable for the large scale business which require huge capital.

2. Inefficient management:

A cooperative society is managed by the members only. They do not possess any managerial and special skills. This is considered as major drawback of this sector. Inefficiency of management may not bring success to the societies.

3. Lack of secrecy:

The cooperative society does not maintain any secrecy in business because the affairs of the society are openly discussed in the meetings. But secrecy is very important for the success of a business organization. This paved the way for competitors to compete in better manner.

4. Excessive Government interference:

Government put their nominee in the Board of management of cooperative society. They influence the decision of the Board which may or may not be favorable for the interest of the society. Excessive state regulation, interference with the flexibility of its operation affects adversely the efficiency of the management of the society.

5. Absence of motivation:

The members may not feel enthusiastic because the law governing the cooperatives put some restriction on the rate of return. Absence of relationship between work and reward discourage the members to put their maximum effort in the society.

6. Disputes and differences:

The management of the society constitutes the various types of personnel from different social, economical and academic background. Many a times they strongly differs from each other on many important issues. This becomes detrimental to the interest of the society. The different opinions and disputes may paralyses the effectiveness of the management.

PROBLEMS FACED BY SSI

Small-scale industries in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, small industries face are given below.

1. Problem of skilled manpower:

The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

2. Inadequate credit assistance:

Adequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.

3. Irregular supply of raw material:

Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, and increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.

4. Absence of organized marketing:

Another important problem faced by small-scale units is the absence of organized marketing system. In the absence of organized marketing, their products compare unfavorably with the quality of the product of large- scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

5. Lack of machinery and equipment:

Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.

6. Absence of adequate infrastructure:

Indian economy is characterized by inadequate infrastructure which is a major problems for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem.

Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.

7. Competition from large-scale units and imported articles:

Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.

8. Other problems:

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and huge number of bogus concerns. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

STEPS TAKEN TO SOLVE THE PROBLEMS OF SSI

POLICIES GOVERNING SSI

1. INDUSTRIAL POLICY RESOLUTION OF 1948:

After gaining independence on August 15, 1947 it was necessary to give new policy for industrial development, decide priority areas and clear doubts in the minds of private entrepreneurs regarding nationalization of existing industries.

The Government of India announced its Industrial Policy Resolution (IPR) on April 6, 1948 whereby both public and private sectors were involved towards industrial development. Accordingly, the industries were divided into four broad categories:

(a) Exclusive State Monopoly-This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were the exclusive monopoly of the Central Government.

(b) State Monopoly for New Units-This category included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless (apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could henceforth be undertaken only by the State.

(c) State Regulation-This category included industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate.

(d) Unregulated private enterprise-the industries in this category were left open to the private sector, individual as well as cooperative.

2. INDUSTRIAL POLICY RESOLUTION OF 1956:

In a short period of operation of the 1948 Industrial Policy, some significant changes took place in the economic and political spheres that called for changes in industrial policy as well. The country hand launched a programme of planned economic development with the first five-year plan.

The second five- year plan gave high priority to industrial development aimed at setting up a number of heavy industries such as steel plants, capital goods industries, etc., for which direct government participation and state involvement was needed.

Further in December 1954, the Parliament adopted the ‘Socialistic Pattern of Society’ as the goal of economic policy which called for the state or the public sector to increase its sphere of activity in industrial sector and thus prevent concentration of economic power in private hands. In view of ail these developments, a new industrial policy was announced in April 1956. The main features of this Industrial Policy Resolution of 1956 were as follows:

A. New Classification of industries:

The Industrial Policy of 1956 adopted the classification of industries into three categories viz.,

(i) Schedule A industries, (ii) Schedule B industries, and (iii) Schedule C industries according to the degree of state ownership and participation in their development:

(i) Schedule A, which contained 17 Industries. All new units in these industries, such where their establishment in the private sector has ready been approved, would be set up only be the state.

(ii) Schedule B which contained 12 industries, such industries would be progressively state owned, but private enterprise is expected to supplement the efforts of the state in these fields.

(iii) Schedule C. All remaining industries fell in this category; the future development of these industries had been left to the initiative and enterprise of the private sector.

B. Assistance to Private Sector:

While the Industrial Policy of 1956 sought to give a dominant role to public sector, at the same time it assured a fair treatment to the private sector. The ‘policy’ said that the state would continue to strengthen and expand financial institutions that extend financial assistance to private industry and cooperative enterprises. The state would also strengthen infrastructure (power, transport etc.) to help private sector.

C. Balanced Industrial Growth among Various Regions:

The Industrial Policy, 1956 helped to reduce regional disparities in industrial development. The policy stated that facilities for development will be made available to industrially backward areas. The state, apart from setting up more public sector industries in these backward areas, will provide incentives such as tax concessions, subsidized loans etc., to the private sector to start industries in these backward regions.

The Industrial Policy 1956 thus provided a comprehensive framework for industrial development in India. However, this policy has been criticized on the grounds that by enormously expanding the field of public sector it had drastically reduced the area of activity for the private sector.

INDUSTRIAL POLICY OF 1991:

With the gradual liberalization of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalization measures under its Industrial Policy on July 24, 1991.

Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(1) Abolition of Industrial Licensing:

The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation. To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing.

(2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses.

Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

(i) Reduced reservation for public sector:
Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

ii) Efforts to revive loss making enterprise:

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

(iii) Disinvestment in selected public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment

(3) Relaxation in Upper Limit of Foreign Investment:
The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalised and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbours etc.

Recent decision taken to further liberalise FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ's), some activities in telecom see tor et