

SMALL BUSINESS: PROMOTION OF EXPORTS &  
TECHNOLOGY

by

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## INTRODUCTION

Small scale industries play a predominant role in Indian economy in terms of output, employment and exports. The discussion on new economic policies has been mostly on the effect on large industries and foreign direct investment. In addition to changes in the industrial policy effecting the large sector, there are also some changes in respect to small scale industry policies.

In this paper, there are four sections - the first section gives an overview of the role of small business in Indian economy. Section II gives the policy framework under which small scale industries were operating and the recent changes introduced since August 1991. Out of the policy changes, two aspects are taken for detailed review. They are: export policy in performance through free trade zones and second, the modernisation and technological innovations. Section III gives the export contribution to small business and the special attempt to export through EPZs and their contribution is given. As a contrast the Chinese attempt in their special economic zones is briefly touched. Section IV gives a comparative view of different approaches adopted in a few countries for modernising small scale industry. India tried through DCSSI, creating science parks, software technology parks and electronic hardware technology parks. As a contrast to this the country experiences of Korea, Germany, Japan, UK and USA are given.

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## I: ROLE OF SMALL BUSINESS

In 1960-61 there were about 36,000 SSI and had the output of Rs.785 crores. This was 5.52% of NDP. During these three decades of growth, it was estimated that in 1988-89 the total number of SSI units were 17.01 lakhs, which accounted for Rs.1,06,875 crores which accounts for 34.53% of NDP.

The definition of small business varies in different countries. It includes not only manufacturing units but also service sectors. Most of the countries use employment criterion upto 500 persons. They sometimes combine either turnover or investment criterion in addition to employment criterion. However they always combine small scale industry with medium scale industry in their policies. In India most of the promotional activities of the government is directed towards small scale industries (SSI). Table 1 gives some of the indicators. The total number of units have increased from 4.16 lakhs in 1973-74 to more than 18.26 lakhs in 1989-90. Similarly one can notice the significant growth in employment, investment, production and exports from these units during this period.

**Table 1: Small Scale Sector: Basic Data:**

Items	1973-74	1980-81	1989-90	Annual Growth rate 1973-90.
Total No. of units (Lakhs)	4.16	8.74	18.26	9.7
Employment (Lakhs)	39.7	71.0	119.6	7.1
Investment (Rs. Crores)	2,296	5,850	18,196	13.4
Production (Rs. crores) at current prices	7,200	28,060	132,320	20.0
Exports (Rs. crores)	393	1,643	7,628	20.4

Source: CMIE: Basic Statistics Relating to the Indian Economy, Vol.1, All India 1991. Bombay

According to Economic survey (GOI), the number of small scale units are 19.38 lakh including 5.6 lakh unregistered units. The value of production is Rs.155,340 crores and employment 124.30 lakh during 1990-91. The direct exports from the sector is Rs.9100crores. The growth is low during 1990-91 due to import restrictions, credit squeeze and hike in interest rates.

There were two census on modern small industrial units in 1972 and 1987-88. The census data relates only to the industrial units which fall within the purview of small scale industry Board and it also limits itself to the prevailing definition of small industry. In 1972 the investment limit of plant and machinery of SSI was Rs.7.5 lakhs and ancillaries Rs.10 lakhs. This was revised in 1987-88 to Rs.35 lakhs and Rs.45 lakhs respectively. The number of units covered were 1.4 lakhs in 1972 and 5.82 lakhs in 1987-88.

The two census indicate some structural changes.

In terms of number of units, employment, fixed assets and production the share of food and textiles and services increased while there was a decline in metal and electrical products between these two census. It shows a decline in the seven developed states compared to other states. The developed states considered were Gujarat, Maharashtra, Tamil Nadu, West Bengal, Haryana, Karnataka and Punjab. It indicates the share of small-sized group up to Rs.1 lakh declined compared to size of Rs.3 lakh and above. The reservation policy, which was introduced in 1947 with 47 items, was increased to 846 items by 1988. These were reserved for exclusive manufacture in the small scale sector. But the census data of 87-88 indicates that the capacity utilisation increase was lower in the reserved category compared to unreserved items (Sandesara, 1993). Though there is an increase of employment during the two census period, but the average size is reduced in almost all industries, some as low as 25% of the size in 1987-88 compared to 1972. All industries average at 50% of the earlier period. That means, the investment has increased per unit while there is 50% less employment.

## II: POLICY FRAMEWORK

The Indian development strategy had given an important role to village and small industries to overcome the problems and unemployment in India. It was also assumed that it will facilitate an effective mobilization of resources, capital and skill which are unutilised. There were several institutions evolved in promoting handlooms, handicrafts, coir, Khadi and village industries. Besides, there was a Small Scale Industry Board to promote small scale industry. In addition District Industry Centres were initiated during late 1970s.

The cut off point for the promotional measures, government demarcated on the basis of investment and employment criteria. Up to 1958 the cut off point was Rs.5 lakhs. In addition employment criterion of 50 workers using power and 100 workers not using power. In 1960 it separated ancillaries and small scale units. While SSI was Rs.5 lakhs, ancillaries Rs.10 lakhs, employment criteria was dropped. This was changed in 1975 to 10 lakhs and 15 lakhs respectively. Again in 1980 increased to 20 and 25 lakhs, in 1985 to Rs.30 and 45 lakhs, in 1989 to Rs.60 and 75 lakhs respectively (Kashyap, 1988).

There were several promotional policies adopted by the Government of India. They are as follows:

- Industrial estate( General purpose, Ancillary, Free Trade Zones and RIPs)

- Production( Reservation Scheme, Hire purchase, Imports)
- Marketing( Government procurement, Domestic marketing, Exports and Ancillary)
- Finance( Fixed capital, Working capital)
- External Services

The reserved items were as much as 874 and the government reserved for exclusive purchases of 404 items from SSI. Besides there was a price difference of 15% compared to large scale units. There were also several types of subsidies given, such as excise duty exemption, power subsidy, interest subsidy, sales tax subsidy, which almost accounted for 70% of ex-factory value of the output(Shiva Ramu 1979).

This approach of subsidising traditional household factories provided an internal tariff protection for the rural hand workers against low-cost factory goods. "This meant that the locus of disguised unemployment was shifted: one make work scheme replaced another" (Kashyap, 1988). The impact of government strategies in the promotion of small scale industries has been marginal.

#### Salient Features of New Policy

The document on the new small enterprise policy titled Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises' was tabled in parliament on Aug.6,1991. The major headings: small and tiny enterprises and village industries.

The primary objective is to impart 'more vitality and growth impetus'. The changes are:

- De-regulation, de-bureaucratization and simplification of statutes, regulations and procedures
- Equity participation up to 24 per cent by other industrial undertakings (including foreign companies)
- Legislation to limit financial liability of new and non-active partners/entrepreneurs to the capital invested.
- Hike in investment limit for tiny sector up from Rs.2 lakhs to Rs. 5 lakhs in any location.
- Services sector to be recognised as tiny sector.
- Support from National Equity Fund for projects up to Rs.10 lakhs.
- Single Window Loans to cover projects up to Rs.20 lakhs. Banks too to be involved.
- Relaxation of certain provisions of labour laws.
- Subcontracting Exchanges to be set up by industry associations.
- Easier access to institutional finance.
- Factoring services through SIDBI to overcome the problem of delayed payments. Also, legislation to ensure payment of bills.
- Women enterprises redefined.
- Package for handloom and handicraft sector.
- Export development centre in SIDO.
- Marketing of mass consumption items by National Small Industries Corporation under common brandname.
- Introduction of a scheme of Integrated Infrastructural Development (including technological back up services) for small scale industries
- Setting up of a Technology Development Cell in the SIDO



There are two issues which are not covered namely sickness and reservation (Sandesara).

The Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertaking Ordinance, 1992 promulgated by the President on Sept.23, 1992. The initial euphoria among SSI on the new law on prompt payment has given place to some scepticisms to its effectiveness in the light of the fact that it inter alia enables agreements between suppliers and buyers stipulating payment of bills beyond 30 days and does not specify any outer limit for payment in the clauses of such agreements. The pressures are building up on SSI suppliers to enter into longer term agreements for payments.

The Finance Act 1992 has brought in a new scheme of assessment of partnership firms. Till now, a distinction was being made between a registered firm and an unregistered firm. A registered firm paid a small tax (less than 20%) on its income. The remaining income of the firm was allocated to the partners in their profit sharing ratio and the partners paid tax on their share-income at the rate applicable to their total income.

If the firm paid any remuneration or interest to a partner such payments were disallowed in the assessment of the registered firm. The partner, however, had to pay tax on the remuneration or interest received by him in spite of the fact that the registered

firm had paid tax on such payments because of the disallowance. The unregistered firm was taxed at the rates applicable to individuals. Under the new scheme, the formality of registration of firms by the income tax Department has been given up. While a firm will pay tax on its income, the partners need not pay tax on their share income. Remuneration and interest paid by the firm to the partners will be allowed as a deduction in the computation of the firm's income up to certain limits.

### Budget (1993)

Some of the changes introduced in Budget proposal of 1993 are:

- Exemption from registration limit increased from Rs.7.5 lakhs to Rs.10 lakhs
- Excise duty complete exemption for the first Rs.20 lakhs turnover under one chapter Rs.30 lakhs if the goods are more than one chapter of the tariff. Now all units exemption limit up to Rs.30 lakhs.
- Excise duty payable above the zero duty limit and up to Rs.75 lakhs is normal duty minus 10% subject to minimum 5% ad valorem. It is proposed to retain this up to Rs.50 lakhs between 50-75 lakhs normal duty minus 5%.
- 5 year tax holiday under Sec.10 A of the Income Tax Act, presently for FTZs is extended to software technology parks and electronic hardware technology parks.
- 100% reduction for three years in respect of income derived from export of software is extended for one more year.

In the new policy announced, there are two policies mentioned, viz., Export Development Centre and Technology Development Cell in SIDO. In the following sections a brief review of the earlier policies regarding these aspects are given.

### III: EXPORT PROMOTION

#### India:

Export promotion of the SSI product was given high priority in the export strategy of the country. The contribution by SSI sector was increased both absolutely and relatively over the years. In 1970-71 SSI exported Rs.70 crores and accounted for 4.5% of the total exports. By 1988-89 it was exporting Rs.5,681 crores and accounted for 28% of the total exports.

One of the promotional activities taken by the government of India was to set up Export Processing Zones (EPZs) and the 100% export oriented units (EOU). There are seven EPZs in the country. The gross export contribution is given in Table 2.

Table 2: Exports from EPZs

Zones	No. of units Approved - Working		Exports 1990-91 Rs.Crores
KAFTZ	-	134	456.55
SEEPZ	-	101	389.00
MADRAS	153	50	61.32
NOIDA	152	55	44.59
FALTA	69	9	25.02
COCHIN	70	22	6.25*
100% EOUs	850	177	591

Source: CMIE: Basic Statistics Relating to the Indian Economy, Vol.1, All India 1991. Bombay

\* previous year data

The gross export contribution of the five zones (except Cochin) amounted to Rs.977 crores in 1990-91. In addition, EOUs have earned Rs.591 crores. The combined contribution of EPZs and EOUs were Rs.1500 crores which comes to 5% of the total exports of Rs.32,500 crores during 1991. If one discounts the imports which comes to 25-30% of the gross exports, then the performance of these are still less.

They are given many concessions, such as tax holiday for five years, duty free import of capital goods and equipments, special tax concessions, and allowed to 25% of the production to domestic trade area at a lesser duty.

#### China's SEZs

In 1980 China created four Special Economic Zones (SEZs). They were Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen in Fujian province. By 1987 the combined industrial output of SEZs was US \$1.1 bil. and exported \$954 mil. Besides, 14 coastal cities were opened in 1984 offering the same incentive as SEZ. In the initial years these had the usual problem of cumbersome bureaucracy, over-expansion in capital construction, and there was unclear lines of responsibility between the SEZ and local and Central governments.

In contrast to other provinces, Jiangsu was slow to grow but the situation changed since 1987. The reasons are:

- The provincial investment incentives announced in 1986 was more than national incentives announced in Oct.1986. More tax exemptions and approval procedure was decentralized and simplified.
- It offered lower labor costs with well trained work force and good infrastructure.

Most of the joint ventures are based on the export of labor intensive manufactured goods and the contribution of the foreign partner is export marketing expertise (e.g. forerunners are workshoe and glove joint ventures.). The success of the initial export oriented units encouraged the authorities led to providing special privileges and simplification of procedures. The range of goods produced is wide -candy wrappers, sports shirts, latex gloves, plastic floor tiles, toys, leather goods etc.-.All these benefitted by the partner's knowledge of a specific export market niche. Subsequently, the joint ventures moved to less developed northern part of Jiangsu where wages are still lower than in Southern Jiangsu.(Richard Pomfret,1991).

While both India and China have tried to promote exports through establishing free trade/special zones. Both of them had similar experiences in earlier years. However, China was able to move faster in development of export oriented small scale industries during 1980s, while Indian attempt remained marginal. The major difference between the two has been in providing infrastructure facilities and the nature of bureaucratic and the decentralised decision process. This implies that more than any other incentives the changes in the decision making process would be a critical success factor.

#### IV: MODERNIZATION AND INNOVATION

##### India: Development Commissioner (SSI)

DCSSI is the nodal agency for formulating, coordinating and monitoring the policies and programs for promotion of small scale industry in the country. It is called SIDO (Small Industries Development Organization). It provides comprehensive services through a network of 26 Small Industries Service Institutes, 32 Branch Institutes, 39 extension Centres, 4 Regional Testing Centres, 3 production and process Development Centres, 2 Footwear Training Centres, 4 Production centres and 20 Field Testing Stations in specific types of industries. Besides, there are 418 District Industry Centres covering 427 districts out of total 432 districts in the country.

The government approved the scheme of modernization in 1975-76. Since then SIDO is implementing in cooperation with state Directors of Industries, banks and financial institutions. The objectives are: improvement in production technology, product development and Design and application of imported technology. (DCSSI: Annual Reports).

##### Science Park

India, after Independence set up several central scientific and industrial research centres. Only two CSIR labs., viz., National Chemical Labs., Pune and CFTRI Mysore were able to provide knowhow to small firms. As success was limited, India felt Silicon Valley syndrome in 1980s (Shiva Ramu, 1986).

Birla Institute of Technology, Ranchi tried to establish Science Park in 1972. Subsequently Ministry of Science and Technology appointed a Nayudamma Committee which recommended setting of Science and Technology Entrepreneurs Park (STEPS). Government also established National Science and Technology Entrepreneurship Development Board (NSTEDB) in 1982 to promote entrepreneurship among science and technology persons. This in turn identified ten locations of STEPs. They are: Indian Institute of Science, Bangalore; BIT, Ranchi; Jadhavpur University, Calcutta; Madurai Kamraj University, Kamraj; Gurunanak Engineering College, Ludhiana; Government Engineering College, Guwahati, Osmania University, Hyderabad; Kerala State Council for Science and Technology in association with KELTRON; IIT Delhi and REC, Bhopal. It was expected that these sponsoring institutions would provide half the seed money and the other part by central and state governments. It was expected that after five years they will be self-sufficient. This is supposed to be a link between technical institutions, government and industries to create an environment for interchange of knowledge, use of infrastructure facilities and technical expertise available in educational institutions to support small and medium industries. Assessment of the success of the project is not known.

## Software Technology Parks

Department of Electronics authorised the import of computers for the development of software in 1970. The condition was that they have to export software equivalent to 200% of the CIF value during first five years. In 1976 NRIs were allowed to import equipment if they can generate software exports equivalent to 100%. In 1981 Indian company could import equipment and export up to 300% of CIF and also have an export contract of at least 20% of the CIF value of the computer imported. The NRIs can import in export-oriented software company and export up to 200% of the CIF. These rules were changed again in 1986. Export obligation was equivalent to 250% by the Government of India plus 150% under NRI or foreign participation or use of foreign exchange entitlement as a result of excess exports. If the software exporters use EXIM bank loan, then the condition was 350% of export obligation.

World Bank funded survey of buyers puts India on the top for software development due to labour cost, technology competence, English speaking and labour supply. But there is a need for improvements in telecommunications, education and training, ease of doing business and government incentives.

DOE set up Software Technology Parks (STP) allocating Rs.30 crore in 1990. The seven places identified are Pune, Bangalore,



Hyderabad, NOIDA, Bhubaneswar, Gandhinagar and Trivandrum. The exports of software was Rs.410 crore in 1991-92 (about 1.2% of international trade). This was contributed by SMEs about 35% (by 150 units) and rest by 10 big companies. The STPs are operated like any EPZs. The park authorities are to provide the hardware backup: sophisticated computers such as IBM AS400, high speed data communication links through earth stations and office space. It allows for duty-free import of equipment, single window project clearance and a central excise holiday. The Bangalore Park opened offices in Germany and the US for liaison and sales. It had cleared 180 applications. Most of them are under performing, the exports for two years are: Pune (Rs.28 lakhs), NOIDA (Rs.6 lakhs), Hyderabad (4.5 lakhs) and Bangalore (Rs.4 lakhs).

The government freed the STP tag in 1991. A company can function as an STP and enjoy benefits. DOE has cleared 39 proposals as on Nov.1992 such as Wipro, Kirloskar Computers, NIIT, Motorola India, Texas Instruments, Hindustan Aeronautics, ITC, PSI Data Systems, Duncans and DPS software etc. In January 1992, DOE cleared the software unit project of Hughes Network Systems in four days. The private STPs is good. The STP concept is not implemented the way it was envisaged e.g. NOIDA a section of the EPZ was identified as STP area in 1990 and no facilities are installed even in 1992.

## Electronics Hardware Technology Parks (EHTP)

The Government announced on 10 Sept.1992 policy for attracting global electronic giants to make India a base for their international operations. Electronics Hardware Technology Parks (EHTP) similar to the existing 100% export-oriented units and export processing zones will be allowed to be set up with additional facilities including permission to sell the produce in the domestic markets. It includes consumer and entertainment electronics as well.

### Features:

- While the Central Government will not set up the infrastructure, the State Governments, public or private sector units could set them up and even an individual unit could become an EHTP.
- There will be no stipulation of minimum added value in EHTP. However, no access to the domestic market will be available to EHTP units with less than 15% value addition.

- Case	Value addition	Market access
Equipment:	15%	25%
Components:	25%	30%
Equipment:	25% & more	30%
Components:	25% & more	40%

- Higher value addition will be encouraged through the incentives of higher domestic market access. However, in computer software, there will be have to be minimum value addition to 60% and the maximum market access will be only 25%.
- The value addition formula will be based only on the net foreign exchange earned.
- The value addition and market access will be computed on the basis of total operation instead of product by product basis as was the case in the EPZ.

All imports will be duty free. 50% of normal duty paid for domestic market sales and normal duties in case of negative list of imports.

The order issued by the Ministry of Commerce under the Foreign Trade (Development and Regulation) Ordinance 1992. The clearance is given by the inter-ministerial standing committee with the Secretary, Department of Electronics as the Chairman. The clearance will be given within a fortnight.

The 50 hectare electronics technology park (TECHNOPARK) at Thiruvananthapuram is the first of its kind in the country. It has already the DoE's Software Technology Park (STP). Now it is planning to have the first EHTP.

There are already 39 units of various sizes in different stages of implementation. e.g. TCS (software export and training centre), unit of Information Management Resources of US, MN Dastur, Transdot Electronics., etc.

Facilities: The location provides training facilities on an IBM mainframe. Software development units can use IBM ES9000. A dedicated satellite earth station is being set up. R&D incubator to provide basic equipment for research and development, a pilot production facility, the DoE's Electronics Regional Test Laboratory, a central tool room, a customs bonded warehouse, excise bonded warehouse and a material bank.

A 20% investment subsidy to software units also, a seven year sales tax holiday, assured power supply with tariffs frozen for

five years, besides moves to declare the entire campus as a public utility service to ensure trouble free industrial relations.

## **Korea**

It is felt that Korea's SMEs require to adopt to the changing environment through technological innovations. Since 1980s the inhouse R&D activities of SMEs has increased from 0.11% in 1981 to 0.29% in 1988 (R&D expenditure to total sales). This is small compared to R&D expenditure of 2% by large firms. Government is trying to set a target of 1% of R&D to sales ratio by 1996. The share of the number of SMEs who were importing technology has increased from 34% during 1962-81 to 50% during 1982-89. Korea has identified three factors which have linkages in technological innovations: engineers, venture capital and entrepreneurship of top managers. To fill the gaps it first established Korean technology Advancement Corporation in 1974 to commercialize R&D reserves of government sponsored institutes. In addition it has the Korean Technology Development Corporation, Korean Development Investment Corporation and the Korean Technology Devt. Financing Corpn. These were developed in early 1990s to provide loans and investment opportunities to venture business. The four new companies come under Ministry of Finance and governed by the new Technology Enterprise Support Act.

In 1986 it enacted the Small and Medium Industry Start up Promotion Act. Under this 54 venture capital firms have

registered by September 1991. These were allowed in equities or convertible bonds of SMEs issued within five years of establishment. In 1989 the Korean Technology Credit Guarantee Firm was established to support new technology development and commercialization of R&D reserves of SMEs (Nak Ki Baek).

#### **Germany:**

The success of SMEs in Germany is due to localized support given to them. Eg. Baden-Wurttemberg local province has a Steinbeis Foundation. This Foundation directs SMEs to the technologies they need and controls 114 technology transfer centres employing 2550 staff. In addition there are 13 government assisted Fraunhofer Institutes in the state for transferring applied research into industry. Second feature of the system is that by law all German companies must belong to Chambers of Commerce. This enables for better resource and better service to the SMEs. Thirdly, in 1984 the Federal government introduced national schemes to encourage collaboration between small companies and university departments in advanced technologies. The federal support for SMEs accounted for DM678 mil. This has enabled SMEs to build research capacities faster than large companies.

#### **Japan**

In Japan public agencies provide assistance ranging from loans to tax incentives for investing in equipment. Central government has established several regional initiatives designed to exchange

information about technology to SMEs. Japan has 47 Prefectures. There are two distinguishing features in Japanese system. Firstly, there are 170 regional centres which channel support for innovation and research with less than 300 employees. 75% of the staff at Kohsetsushi centres are engineers who carry out applied research and product testing and offer advice. The annual budget of these centres are \$500 mil. a year, 80% are provided by Prefectures and local governments and 20% by centre. Secondly, SMEs have close relations with large firms as subcontractors whereby large firms pressure SMEs to modernize by demanding strict cost, quality and delivery requirements. They also help them in sharing information and technology.

#### U.K.

Department of Trade and Industry (DTI) spent L 18.7 mil. in 1972 on "Club R&D Projects". This scheme is designed to help groups of small companies to commission research which would benefit them all. DTI pays half the cost of the projects. Besides this, it has several other schemes, such as LINK. Companies get 50% of the cost of project, set up jointly with academic institutions in areas like electronics and advanced manufacturing. SMEs participate in nearly 40% of these projects. Under SMART companies compete for grant to stimulate innovative technological projects. DTI has L 40 mil. for next three years(1993-96). SMEs get grants through SPUR to develop new products and process. government has allocated L 170 mil. for

180 grants. In 1989 DTI set up regional centres called Training and Enterprise Councils (TECs) to provide local services to small firms. Instead of helping SMEs they are bringing competition among information providers such as Chambers of Commerce, TECs, trade associations and local authorities. UK plans to have 15 pilot programs "one stop shops" to provide SMEs information regarding technology and business.

#### United States:

The US created the Small Business Innovation Research Program in 1982. Government departments kept some proportion of their budget every year to the program. For 1993, the budget is \$500m. Besides Clinton pledged \$500m to create a network of 170 manufacturing technology centres throughout the US similar to Japan. However, there are already regional networks in some states started their own self-help programs. One such is the Montgomery County High Technology Council in Maryland. It created \$220m in public grants and \$600m from the private sector to create more than 800 new companies. Under the scheme, the state government gives grants for four regional technology centres for applied R&D involving collaboration between industry and local universities. (Coghlan, 1993).

The experience of different countries indicate that the success is achieved in Japan and Germany. Accordingly, in recent years, the UK is trying to imitate Germany and the US that of Japan. In this context, India is still not able to get over its centralized approach in modernization in small scale industries.

## SUMMARY

It is clear from the growth of small scale industry in India that it has an important role to play both in terms of production and employment generation. It is equally important as a major player in foreign exchange earnings of the country. In view of these, there is an attempt to change some of the policies. However, India continues to use investment criterion in determining small scale industries. There are three aspects in this criterion. First, most of the countries experience indicates that they use employment criterion for their promotional efforts. Second, the census on small industry indicates that there is a decline in size of employment per unit though there is an increase in total employment and investment. This indicates the objective of employment generation is not fully realized with the existing policies. Third, most of the countries combine small industry with medium industry (SMEs) while India combines small industry with village industries. All these indicate that India needs to revise its perspective from village and small industries (VSI) to small and medium industries (SMEs). In addition change the criterion from investment (which is flexible) to employment criterion. This will help not only giving proper data but also formulating consistent policies of SMEs.

While reviewing the policies regarding export promotion and modernization of small scale industry, it appears, India still intends to try with the existing organization SIDO. The experiences of the success achieved in other countries indicate different approaches. All the policies announced so far are necessary and do assist in promotion of small scale industry. But they are not sufficient. The sufficient condition is decentralization of decision making and simplification of procedures.



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