

ESTIMATES COMMITTEE
(1980-81)

(SEVENTH LOK SABHA)

FOURTEENTH REPORT

MINISTRY OF INDUSTRY

(DEPARTMENT OF INDUSTRIAL DEVELOPMENT)

**Small Scale Industries—Raw Materials and
Marketing**



Presented to Lok Sabha on 16 April, 1981

LOK SABHA SECRETARIAT
NEW DELHI

April, 1981 (Chaitra, 1903 (Saka))

Price : Rs. 7.70 paise

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA
SECRETARIAT PUBLICATIONS**

ANDHRA PRADESH

1. Andhra University General Co-operative Stores Ltd., Waltair (Visakhapatnam).

BIHAR

2. M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).

GUJARAT

3. Vijay Stores, Station Road, Anand.

MADHYA PRADESH

4. Modern Book House, Shiv Volas Palace, Indore City.

MAHARASHTRA

5. M/s. Sunderdas Gianchand, 601, Girgaum Road, near Princess Street, Bombay-2.
6. The International Book House Pvt., 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.
7. The International Book Service, Deccan Gymkhana, Poona-4.
8. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.
9. M/s. Usha Book Depot, 585/A, Chitra Bazar Khan House, Girgaum Road, Bombay-2.

10. M & J Services, Publishers, Representatives Accounts & Law Book Sellers, Bahri Road, Bombay-15.

11. Popular Book Depot, Dr. Bhadkamkar Road, Bombay-400001.

MYSORE

12. M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1.

UTTAR PRADESH

13. Law Book Company, Sardar Patel Marg, Allahabad-1.
14. Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad—U.P.

WEST BENGAL

15. Granthaloka, 5/1, Ambica Mookherjee Road, Beigharia, 24-Parganas.
16. W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.
17. Mrs. Manimala, Buys & Sells, 128, Bow Bazar Street, Calcutta-12.

DELHI

18. Jain Book Agency, Connaught Place, New Delhi.
19. M/s. Sat Narain & Sons, 3141, Mohd Ali Bazar, Mori Gate, Delhi.

CORRIGENDA TO THE FOURTEENTH REPORT OF E. C.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(iv)			Insert INTRODUCTION	
1	1.3	9	These	There
12	2.37	3	PCV	PVC
28	2.94	8	so to	so as to
36	3.39		in the end insert (S.No. 24)	
38	3.50	4	expeditions	expeditious
60	4.42		in the end insert (S.No.39)	
67	4.73	6	At The Ministry's	In the Ministry's
	4.74		(Sl.No.44)	(S.No.42)
68	4.77	2	staetd	stated
74	4.99	4	intervene	intervenes
83	5.23	2	organisation	organisations
		last line	-do-	-do-
89	5.46		in the end insert (S.No. 67)	
110	6.67	2	safeguarding in	safeguarding the
113	6.76	Table	Kanpur 624.00	625.00
124	7.30		7.30	7.32
125	7.33		(S.No.98)	(S.No.93)
138	8.53	9	Colesion	Cohesion
144	9.29	5	guide-boon	guide-book
149	Appendix		2.41	2.40-2.41
152	2.84	last	concerned so to	concerned so as to
156	3.86		3.86	3.87
159	4.41	12	recommended	recommend
168	6.35	7	to	of
			6.73	6.37
169	6.40	6	has	had
173	Sl.No.89		6.81	6.86
	Sl.No.90		7.28	7.27 - 7.28
175	Sl.No.95		8.43	8.43 - 8.44

C O N T E N T S

	PAGE
COMPOSITION OF ESTIMATES COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I. <i>Introductory</i>	1
CHAPTER II. <i>Availability of Raw Materials</i>	
A. Availability of Raw Materials	3
B. Earmarking percentage share of Raw Materials for Small Sector	14
C. Demand, Allocation and Actual supplies	16
D. Uncertainty and Mismatching of supplies of Steel Materials	19
E. Supply of Raw Materials Produced by large sector and required for production of Reserved items	23
F. Payments of Advance Money	26
CHAPTER III. <i>Import of Raw Materials</i>	
A. Import	29
B. Phased Deliveries	33
C. Deliveries delayed after payment	35
D. Actual User's Licence facility	36
E. Pricing Policies of Canalising Agencies	39
F. Lifting of Materials at High Seas	43
G. Warehouses of Canalising Agencies	45
H. Buffer Stocks	47
CHAPTER IV. <i>Distribution of Raw Materials</i>	
A. Role of SIDCs as distribution Agencies	49
B. Working of SIDCs	52
C. Misuse of Raw Materials	61
D. Registration of Small Scale Units	69
E. Need for a Nodal Agency & Role of (DCGSSI)	70

CHAPTER V. <i>Marketing Organisation</i>	PAGE
A. Marketing Information Network	76
B. Marketing Federation	78
C. Role of SSICs	79
D. Role of TDA	86
E. Indian Institute of Foreign Trade	88
F. Consortia Approach	89
CHAPTER VI. <i>Linkages with Large Industries</i>	-
A. Ancillary Development	91
B. Delayed Payments to SSI Units	103
C. Undercutting of Price by Large Industries	103
D. Sub Contracting Exchanges	110
E. International Sub Contracting Exchange	115
CHAPTER VII. <i>Reservations of items for Exclusive Production in Small Sector</i>	
A. Intrusions by large sector in fields of Small Sector	117
B. Captive Capacity	118
C. Export Obligation	121
D. State Agencies entering into competition with SS Units	122
CHAPTER VIII. <i>Purchase Preference</i>	126
A. Exclusive Purchase Policy	129
B. Purchase Advisory Committee	133
C. Price Preference	134
CHAPTER IX. <i>Quality Control</i>	
A. Testing Centre	139
B. Standardisation	142
APPENDIX—Summary of Recommendations/Conclusions	147

ESTIMATES COMMITTEE

(1980-81)

Shri S. B. P. Pattabhi Rama Rao—Chairman

MEMBERS

2. Shri Kumbha Ram Arya
3. Shri Chitta Basu
4. Shri Manoranjan Bhakta
5. Shri Sontosh Mohan Dev
6. Shri Ajitsinh Dabhi
7. Shri Digambar Singh
8. Shri Era Mohan
9. Shri Jitendra Prasad
10. Shri K. T. Kosalram
11. Shri M. M. Lawrence
12. Shri Vilas Muttemwar
13. Shri B. R. Nahata
14. Shri P. Namgyal
15. Shri Balasaheb Vikhe Patil
16. Shri Janardhana Poojary
17. Shri K. Pradhani
18. Shri K. Vijaya Bhaskara Reddy
19. Shri Ajit Kumar Saha
- *20. Shri Daya Ram Shakya
21. Shri Nawal Kishore Sharma
22. Dr. Shankar Dayal Sharma
23. Shri Virbhadra Singh
24. Shri R. S. Sparrow
25. Dr. Subramaniam Swamy
26. Shri Tariq Anwar
27. Shri R. L. P. Verma
28. Shri D. P. Yadav
29. Dr. Golam Yazdani
30. Shri Zainul Basher

SECRETARIAT

Shri H. G. Paranjpe—Joint Secretary.

Shri K. S. Bhalla—Chief Financial Committee Officer.

Shri A. N. Bhatia—Senior Financial Committee Officer.

*Elected w.e.f. 12-8-1980 vice Shri T. R. Shamanna resigned.

1. I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Fourteenth Report on Ministry of Industry (Deptt. of Industrial Development)—Small Scale Industries—Raw Material & Marketing.

2. The Committee took the evidence of the representatives of the Ministries of Industry (Deptt. of Industrial Development), Supply and Rehabilitation (Directorate General of Supply and Disposal), Commerce, Finance and Steel & Mines, office of the Development Commissioner (Small Scale Industries), MMTC, STC, Indian Institute of Foreign Trade and Trade Development Authority, on 12 and 31 January, 1981. The Committee wish to express their thanks to the officers of these Departments/Ministries etc. for placing before them the material and information which they desired in connection with the examination of the subject and for giving evidence before the Committee.

3. The Committee also wish to thank the Federation of Associations of Small Industries, National Alliance of Young Entrepreneurs, New Delhi, Indian Council of Small Industries, Pune, and Bihar industries Association, Patna for giving evidence and making valuable suggestions.

4. The Committee also wish to express their thanks to all other institutions, associations, bodies and individuals who furnished memoranda on the subject to the Committee.

5. The report was considered and adopted by the Committee on 10 April, 1981.

6. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report. A summary of the recommendations/observations is appended to the Report (Appendix).

NEW DELHI;

April 14, 1981.
Chaitra 24, 1903 (Saka)



S. B. P. PATTABHI RAMA RAO,
Chairman,
Estimates Committee.

CHAPTER I

INTRODUCTORY

In a developing country like ours where capital is scarce and labour force is abundant for effective utilisation, the small industry has to be the main instrument to create employment opportunities to the teeming millions of our countrymen. Our planners consider the small industry as an instrument to bridge the gap between the developed and under-developed areas, the rich and poor and curb the concentration of economic wealth in few hands. The small industry programme got an impetus during the Second Five Year Plan, although even in the pre-independence period there were small and village industries in our country. The small industry, since launching of the Second Five Year Plan, made rapid strides in the development of even sophisticated and import substitute items and it now produces products ranging from simple technology to most advanced technology products like computer peripherals.

1.2 According to the latest definition as announced in the Industrial Policy Statement made on 23rd July, 1980, the investment on plant and machinery in the small scale industries has been raised from Rs. 10 lakhs to 20 lakhs and in the case of ancillary units, from Rs. 15 lakhs to Rs. 25 lakhs, and in case of tiny units from Rs. 1 lakh to Rs. 2 lakhs.

1.3 However, small industry is not really a small sector now as some may believe. It is estimated that in 1979-80 the gross value of its production was around Rs. 21,000 crores which works out to about 32 per cent of the total production in the whole manufacturing sector. In terms of employment, the sector offers employment opportunities to 70 lakh persons and in the field of exports, this sector accounted for nearly Rs. 1100 crores worth of exports in 1979-80 which was about 16 per cent of the total exports of the country. These are about 8 lakh small scale units in the country producing about 3000 items.

1.4 Any industrial activity, whether large or small, needs inputs of raw materials like iron and steel, non-ferrous metals, chemicals, petroleum products, plastics etc. according to the nature of activity. A small unit whether in urban area or in rural area procures raw materials from large industry, dealers, stockists etc. Those items

which are not indigenously manufactured are obtained by way of imports.

1.5 Over the years, scarcity of vital raw materials required by the small scale industries, such as iron and steel, pig iron, aluminium, coal, cement, PVC and chemicals etc. and the marketing difficulties encountered by the sector have been voiced in the Press, Parliament and elsewhere.

1.6 The Committee have in the Report examined some of the important aspects of concerning raw materials and marketing problems of the Small Scale Industry and have made suggestions which, if implemented, would go a long way in solving these problems of the small scale sector.

CHAPTER II

AVAILABILITY OF RAW MATERIALS

A. Availability of raw materials

The small scale sector comparatively has been going through somewhat difficult period due to shortage of various commodities especially certain categories of iron and steel, pig iron, coke, EC and C.G. Grade aluminium, copper, tin, mutton tallow, paraffin wax, caustic soda, soda ash, PVC, LDPE and HDPE. The year was a more difficult one in view of the fact that the demand from the small scale sector went up beyond expectation due to enhanced production activities. As a consequence of spurt in demand shortage was felt even though the availability of raw materials was comparatively better than the previous years. The acute shortage was specially felt for iron and steel items and aluminium both C.G. & E.C. grade. The extent of shortage, however, is not always as much as it is made out to be. The Ministry of Industry are of the view that in most the raw materials the marginal scarcity creates a psychological scarcity among the industries and consequently inflated demand is projected. Nevertheless, there is no doubt, that small scale industries have to go through a difficult period in obtaining the scarce category of raw materials.

2.2 The Committee have been informed that Government have taken decision to import whenever necessary the estimated shortfalls to augment the supplies through recognised government agencies.

2.3 It has been stated by the Ministry that though a significant amount of material during 1978-79-80 came into distribution channel, the over-all impact of solving the difficulties of small scale sector, however, was not what it would have been. This was due to the basic and inherent difficulties of the small sector (a) absence of exact data i.e. assessment of capacity of requirement, (b) shifting demand pattern consequent to the change in production lines often done by small industries; (c) financial shortcomings and; (d) absence of expertise in predicting their projected demand for the coming year.

It has been stated that with the new policy of Government of creating a buffer stock through canalising agencies in scarce category

of raw materials, to tide over the seasonal demand, some success has been achieved the prevailing pressures on the canalising agencies have substantially been reduced.

2.4. The Ministry of Industry have stated that with the experiences gained by the canalising agencies and with the availability of more foreign exchange for imports, the policy of the canalising agencies will be maintained for balancing buffer stock. With this situation is likely to improve further. However, the shortage of steel, coal and coke, pig iron continues due to transport difficulties, shortage of power and other related factors.

Share of the small sector in available resources

2.5. In a large number of memoranda submitted to the Committee by non-official organisations the problem of scarcity of raw materials has been highlighted. It has been stated that usual raw material are not supplied to the small scale entrepreneurs in proportion to their production capacity or according to their requirements. Small scale industries were said to be contributing more than 40 per cent of the country's industrial production but when it comes to allocation of raw materials, it is not even 10 per cent. Allocation of raw materials to small, medium and large sectors needs to be made in proportion, giving special weightage to small sector.

2.6. The Ministry have stated that while it is true that small and cottage industries do face considerable difficulties in securing adequate quantities of raw materials at the right time and at the right price. It cannot be said that the percentage of satisfaction allocated to them is only 10 per cent. In fact, it is somewhat difficult to make any firm statement on the subject since demand estimates are somewhat tentative and have not been assessed properly. The small scale sector consists of both the registered and unregistered units. Even in the case of former, there is no statutory obligation to provide production returns to any agency either at the State level or the national level and hence the utilisation of raw materials and their capacity requirements are difficult to be assessed at any point of time. Further, in view of the changing product mix of the small scale units, the requirements of the units themselves tend to vary from time to time. For this reason statistics on requirements in the small scale sector are necessarily somewhat tentative and are based on estimates made by the State and national level authorities from time to time which is done on the basis of past-off-take and utilisation of capacity.

2.7. The total industrial production in the last 7 years and the share of the small scale sector is shown in the following table.

Share of small scale Industries in Industrial Production
(Value in Rs. crores)

Year	Total industrial production (estimated)	Small scale industries production SIDC Sector)	Share of small scale industries in total (%)
1973-74	27020	7830	29
1974-75	35935	10180	28
1975-76	40290	12000	30
1976-77	45105	13470	30
1977-78	50820	15240	30
1978-79	56320	16890	30
1979-80	66390	20930	32

2.8. When asked as to how much of the capacity of small scale industries could be utilised with the amount of raw materials allotted to small scale units through authorised channels, Government have stated that while the exact capacity utilisation of small scale sector with the amount of raw materials allotted through official channels cannot be accurately stated, it is estimated that the level of satisfaction (which, however, carries from year to year and material to material) varies between 30-35 per cent.

2.9. Government could not however, say exactly as to how much of the demand could be met from the materials available in the open market although it is presumed that it is made up partially by purchases made in this manner.

2.10. On the question of estimation of demand for scarce raw materials by small scale industries during the last ten years, it has been stated by the Ministry that the demand of the small scale sector cannot be fully assessed on a firm basis. It is not possible to provide the demand assessment of the small scale sector year-wise during the last decade. From the information furnished by the Ministry of Industry in regard to raw material supplies to the small scale industries it is seen that share of the small scale sector ranged during the last ten years between 16—23 per cent of the total available aluminium and only 8.5—14.9 per cent of the total supplies of iron and steel.

2.11. Dealing with the question of allocations of raw materials in relation to small scale sector's contribution to total industrial production Secretary, Ministry of Industry, stated during evidence (January, 1981) that the contribution percentage-wise of the small sector to the total industrial production in the country might or might not have a direct linkage with the distribution to the small sector of critical materials. He was of the view that the ratio relationship could arise only in case it could be established that different criteria of allocation had been followed in allocating materials to large industries, as against small industries. The question was as to what percentage of supplies or allocations had been made against an indent from small industries based on any of the principles, either of an assessed capacity or of past offtake. Secretary added that the assessed capacity had also been very much higher than the material available, and therefore, the proportion which had been adopted generally was based on past offtake. The assessment figures were so much higher than the material available that these had not been accepted for allocation.

2.12. When pointed out that past offtake was not always a correct criterion the secretary, industry stated:—

“Not only that. Offtake is not a scientific criterion also.”

Availability of Materials to SSI Units Vis-a-vis Large Sector Industries

2.13. It has been represented to the Committee that while the raw materials are usually supplied to the DGTD units on the basis of full utilisation of their capacity, in case of small scale sector, allotment of raw materials is made either on single shift basis or a small percentage of their installed capacity. It has been suggested that such discrimination between DGTD and SSI units should be eliminated.

2.14. The Ministry have stated that the contention of the small-scale sector that, in practice, they tend to get a lower percentage of their requirements than the DGTD units is not entirely borne out by the actual allocations made to the two sectors. Some variation between the schemes seems to arise from the distribution formula adopted by most canalising agencies which is on the basis of past offtake by a unit. In the case of DGTD units, there is a specific record of the amount of materials taken by the unit and the amount of production which has been made possible on a licensed capacity basis. The canalising agency, therefore is to provide to DGTD units year after year a well defined quantity of raw material based on the recorded evidence which the units can present to the agency sponsoring it.

2.15. The Ministry added that in the case of small scale units whose number is much larger the position is somewhat more difficult. Many units do not go to the official channels for meeting their requirements when raw material is easily available. It is only in times of critical shortages that the units contact such agencies but since there is no evidence either with the canalising agency or the indigenous producers or even with the State Directors of Industries as to the actual utilisation of the raw material by a small scale unit in the past, it has been found difficult to make available to such units a substantial proportion of their requirements.

2.16. During evidence attention of the Secretary (Industry) was drawn to the following policy priorities suggested by the SSI Board at its meeting held in February, 1979, which according to the Ministry were part of the broad policy and which would be desirable for allocation and distribution of raw materials to small scale units:—

- (i) The genuine requirements of the small scale units would be met in full and would be considered as a first charge on the availability of such raw materials in the country. Such an announcement would create a sense of confidence and remove the psychology of scarcity which leads to inflation of demand.
- (ii) Wherever possible, indigenous raw materials would be made available first to the small scale sector and any short-falls which may have to be imported could be done by the large scale units.

2.17. When asked as to what was the hitch in making a start on these lines, Secretary, Industry, stated that these policy priorities were in fact suggested by the SSI Board and the Ministry had yet to deliberate on them and take a firm decision.

He, however, added that if the thrust of the policy was that small industries requirements must be given priority of the highest order; this was already being done in respect of iron and steel and many other items and it shall continue to be done so. Apart from small industries there were also other very important and strategic sectors like communications, public utility, defence, oil exploration, steel etc. While therefore small scale was certainly a priority sector and as far as allocation of materials was concerned, it must have the sort of terms that at the moment it deserves, but the Ministry have not yet announced this as a statement of policy. Secretary (Industry) agreed that this sector must be given top priority, but he would not agree that it should explicitly be the first charge. He

was of the view that it should be the first but alongwith similarly linked national priorities.

2.18 He informed the Committee that this matter would be placed before the SSI Board in its next meeting after the Board had been reconstituted.

Basis of Allocation

2.19. The Ministry have stated that the basis of allocation varies from material to material. The Ministry have added that most of the canalising agencies allot on the basis of past offtake. In case of steel in most cases, the entitlement is based on the past offtake during previous years, in case of re-rollers capacity and past production both are taken into account, case of EC grade aluminium the allocation is made on the basis of capacity and past offtake.

2.20 Various suggestions have been received by the Committee for allocation of raw material to the small scale units. There are:—

1. Allotment should be based on the capacity of the unit rather than past allocation or past consumption.
2. The yardstick of past consumption is no measure of the real requirement of small scale units or their capacity as material was not consumed as it was not available. It should not be assumed that the consumption of raw material would remain stagnant year after year because a small scale unit has to grow. While making allocations, therefore, Government and its organisations should make an assessment of the actual requirements of the small scale units allowing them a margin of growth instead of holding them to the past consumption.

2.21 The Secretary, Industry was of the view that a system based on the capacity in the machines plus the capacity as reflected in the turnover and the capacity as reflected in the actual consumption would be the ideal norm of distribution.

However, he stated that the only practicable norm at the moment would be past offtake or past consumption and these two norms were adopted by all the States universally.

2.22 Ministry have suggested in this connection that it would be helpful for the small scale units if past consumption as authenticated by a Chartered Accountant or a State Director of Industry were taken as the basis irrespective of the sources from where the material has been taken instead of taking past offtake from official agencies as is being done now.

2.23. On the question of encouraging a margin of growth for SSI Units and desirability of adding a certain percentage over past consumption for this purpose the Secretary, Industry explained that the actual allocation today so far as iron and steel was concerned was only about 50 per cent of demand. On the past offtake a certain ratio of progression of 10 per cent was added before the demand from the small units was passed on to the distribution agencies.

2.24. As far as other items were concerned the demand was not based on past offtake but it was based on past consumption. Secretary (Industry) agreed that between past consumption and past offtake, past consumption was more satisfying norm and it could certainly be applied to all items if the Committee desired but so far as iron and steel was concerned it might not make any substantial difference.

2.25. The representative of the Deptt. of Steel however, stated that the danger of adopting past consumption rather than past offtake was the great difference in the verifiability. Secondly there were various other sources of supply which were still available. Some small scale units argued that when the market situation favoured them they would take from the trader rather than the main producer and vice versa. If this was allowed to be done this would be at the expense of other customers who had been steadily loyal to one single producer.

Assessment of Requirements

2.26 Suggesting a basis for assessment of raw material requirements of a small scale unit, a representative of a non-official organisation stated in evidence that:—

“for a new unit, as in the large scale, you should allot raw material based on the project report. For the next year, it is not difficult to know its past consumption and past performance.”

2.27. On being asked to state the measures taken to overcome the difficulties in assessment of capacity or units for determining their raw material requirements, the Ministry have stated that admittedly, assessing the capacity of the small scale units entails a considerable effort in view of the large numbers involved and for other reasons such as changing product mix, inadequate financial resources etc. However attempts, are constantly being made by the DC (SSI) to see whether norms could be laid down for each category of industry so that the assessment of the reasonable requirements of units

could be made with some degree of accuracy and uniformity throughout the country. This has been done in the case of cables and conductors (aluminium), foundries (pig iron) wire drawing units, wire rods, bright bars (Shafts), tins, cans (tin plate) etc. These norms are formulated by the DC (SSI) and recommended to the State Directorate of Industries for use in making the capacity assessments. The assessments so made are then utilised to compile the requirements of the specific category of industry State-wise. The information is then pooled and provided to the distributing agency. It is expected that this exercise will be extended to more and more items so as to introduce a measure of uniformity within the sector.

2.28. On being asked when norms would be formulated in respect of items other than those referred to above the representative of the Ministry stated that the norms had been formulated in respect of specific items which are in critical short supply. The norms for other industries would be laid down as the need arose.

2.29. Secretary (Industry) stated during evidence that assessment was not much of a problem, But in view of the overall shortage in the availability of critical materials, there was at the moment no alternative but to go by past offtake or past consumption.

2.30. As regards relating allocations to assessment of capacity, Secretary (Industry) added:—

“the total allocation which is capable of being made in terms of today’s availability does not even come to 1/10th of the assessed capacity in certain categories. To that extent, assessment of capacity as the base factor for allocation to some extent becomes a little subordinate to the factor of actual appropriation in terms of offtake or consumption. Because when you are functioning in a chronic shortage situation, your basic function is to see that units are kept alive. The only way to do it is to continue to supply them materials at a level they have been supplied previously with a certain degree of progression. That is exactly what has been done”.

2.31. The witness informed the Committee that “at the moment allocation is not equal to the demand. The allocation is around 50 per cent or 60 per cent of the demand”.

2.32. It is distressing to note that the small scale industries which have been assigned an increasingly important role in the plans towards achieving wider employment opportunities, promoting intensive development of new viable industries and decentralisation and

dispersal of industries, earning foreign exchange for the country through exports and which have now established their potential to achieve these ends should be suffering from chronic shortages of essential raw materials. (S. No. 1)

2.33. Even if the contention of the small scale sector that, with a contribution of 40 per cent to industrial production, their share of raw materials was of the order of 10 per cent only, is not accepted, the severity of the shortages is evident when, even according to government's own estimates, the level of satisfaction in the small sector in the matter of raw materials from official channels is only 30 to 50 per cent of their capacity. If with such a low level of raw material supplies, the small sector could achieve a production of the value of nearly Rs. 21,000 crores representing 32 per cent of the total industrial production, make exports worth Rs. 1100 crores representing 16 per cent of the total exports and provide employment to about 70 lakh persons, the full potential of this sector is not very difficult to visualise if their raw material needs are met in full.

(S. No. 2)

2.34. The Committee find that the small scale sector is at a disadvantage compared to DGTD units. Its disadvantages arise from the distribution formula adopted by most canalising agencies which is on the basis of past offtake by a unit. In the case of a DGTD unit they have specific records of the amount of materials taken by a unit and the amount of production which has been made possible on a licenced capacity basis. The canalising agencies are, therefore, able to provide to the DGTD units, year after year, a well defined quantity of raw materials based on the recorded evidence. On the other hand, as admitted by the Ministry, the agencies have failed to make available to the small scale units "a substantial portion of their requirements" as there is no evidence either with the canalising agency or even with the State Directors of Industries as to the actual utilisation of the raw materials by a small scale unit in the past. This goes to prove to an extent the contention of the small scale units that they tend to get a lower percentage of their requirements than the DGTD units. Since maintenance of a proper record of supply and consumption of raw materials will be in the interest of the small units themselves, the Committee would like the Ministry to explore the possibility of evolving a system of record keeping by such units in consultation with the representative organisations.

(S. No. 3)

2.35. The Committee are of the view therefore, that considering the contribution of the small sector to the industrial production and to the national economy as a whole, the raw material requirements of small scale industries deserve to be taken more seriously and given the highest priority and considered as a first charge on the availability of such materials in the country consistent with the needs of other important and strategic sectors like public utilities, Defence, oil exploration etc. A public pronouncement of this approach will create a sense of confidence and remove the psychology of scarcity which leads to inflation of demand. (S. No. 4)

2.36. The Committee endorse the recommendation of the SSF Board that wherever possible, indigenous raw materials should be made available first to small sector and any shortfalls which may have to be imported should be done by the large scale units. (S. No. 5)

2.37. The basic raw materials which have been in short supply are iron and steel, pig iron, coke, aluminium (EC & CG grade), copper, tin, mutton tallow, paraffin wax, caustic soda, soda ash, PCV, LDPE, HDPE. Government, it is found, have not been able to have a clear idea of the demand assessment of the small scale sector. While the Committee appreciate the difficulties of the Government in making an overall assessment of the raw material requirements of the small scale industries, they feel that unless the magnitude of the problem is known fairly accurately at least at macro level it will be difficult for the government to draw any plan to make good the shortage of raw materials. The Committee would expect the Government to evolve a suitable mechanism to make a demand survey in the small scale sector at least of scarce raw materials. (S. No. 6)

2.38. The Committee are informed that the assessed capacity in small scale sector was much higher than the raw materials available. As such assessed capacity is not accepted for the purpose of allocation. The allocation, it is stated, is generally based on past offtake which though not a scientific criterion is unavoidable so long as availability is less than demand. The Committee appreciate the compulsions under which government have to operate insofar as allocation of indigenous raw materials vis-a-vis availability is concerned. But, since government have taken a decision to import whenever necessary the estimated shortfalls to augment indigenous availability, the Committee feel that rigidly sticking to the criteria

of past offtake as the basis of allocation, even when it is known that it meets only about 50 per cent of the demand of SS sector, is not consistent with the concern expressed by Government for this sector. The Committee would like to urge that government should make all efforts to provide raw material to SS units as per their verifiable demand or as suggested by the Ministry at least as per their past consumption (duly authenticated by Chartered Accountant or State Director of Industries) irrespective of the sources of purchase of materials, with due provision for growth. (S. No. 7)

2.39. The Committee find the suggestion made by a non-official organisation to allot raw material to a new small scale unit on the basis of project report in the first year from the date of commencement of production and thereafter on the basis of past consumption or performance as worthy of serious consideration. This has the merit of helping a unit find its feet in the first couple of years which is most crucial period for a new entrepreneur and thus guarding against "infant mortality" among small scale units. The Committee would like the Ministry to give it a serious thought and evolve a satisfactory system to meet the raw material demands of new units in full. (S. No. 8)

2.40. The Committee find that norms have been laid down for certain categories of industries so that the assessment of requirements of units in those categories could be made with some degree of accuracy and uniformity throughout the country. This has been done in the case of cables and conductors (aluminium), foundries (pig iron) wire drawing units, wire rods, bright bars (shafts) tins, cans (tin plate) etc. These norms have been formulated by the DC (SSI) and recommended to the State Directorates of Industries for use in making assessments.

2.41. The Ministry have claimed that the norms have been formulated in respect of specific items which are in critical short supply. It could not be the Ministry's contention that the aforesaid items are the only items which are in critical short supply. The Committee would like that norms should also be formulated for all items particularly in short supply and for other categories of industries in dire difficulties to facilitate a scientific assessment of requirements of units on a uniform basis throughout the country. The Committee would expect this work to be taken up according to a programme and completed as soon as possible. (S. No. 9)

B. Earmarking percentages of raw materials for Small Scale Sector.

2.42. An organisation has suggested that both the canalising agencies and the indigenous larger producers should be required to earmark a specified percentage (in proportion to their share in production) of their current output of raw materials for the requirements of the small units and to supply the specific quantities to the agencies which are entrusted with the distribution of the materials to the small units.

2.43. The Ministry have stated that the suggestion is welcome and has been made repeatedly by the representatives of the small scale industries. However, certain operational difficulties in implementing the suggestion need to be noted. Where the entire output of any particular material is canalised through a single official agency such as in the case of iron and steel it would be possible for the Government to earmark a certain proportion to the small scale sector to be lifted by the designated distribution agencies within a specified time. In respect of other materials, however, where either the canalising agency is meeting only partially the requirement of the industry (as in the case of CG aluminium by MMTC) or where the production is entirely in the hands of private sector producers (such as HDPE) there may be a greater difficulty for Government in enforcing such an allocation.

2.44. The Ministry have added, that while there are certainly no "in superable" difficulties in responding to the suggestion, Government would have to assume powers beyond what they possess now to enforce such a specific earmarking for the small scale sector.

When asked if such a measure was not imperative in the existing conditions in the interest of survival of small scale industry, Secretary (Industry) stated during evidence that any earmarking to be effective meant introducing a control order. Unless an earmarking was within the framework of control mechanism with necessary statutory back up, it was difficult to enforce it.

2.45. The witness added, that, "there are about 5 lakh or 6 lakh small industries which possibly need round 3200 types of different materials. Therefore, if the idea is to consider whether supply to small industry of these 3200 types of different materials at a particular point should be earmarked, then the question assumes a dimension totally out of proportion, because it is not possible nor desirable to bring the entire scope of materials within any distribution control or any other control order."

2.46. Secretary (Industry) further stated that Government effort had been to persuade the large producers in respect of materials which were critical to small industry but which were not under any distribution control. This was done under an informal system in terms of which small industries were supplied with the materials. These efforts have borne fruit and government were determined to see that the small industries did not suffer for want of materials which were produced in the country by the large firms.

2.47. When asked if a beginning in this direction could not be made with the public sector undertakings like the Heavy Engineering Corporation, BHEL so that the small industry was helped, Secretary (Industry) stated that it was really possible for the small industries to get help from them, and the Ministry wanted that this material from BHEL and HEC could be supplied. While he assured that this would be done, he was of the view that there was no need for statutory control.

2.48. In regard to the suggestion to earmark a proportionate percentage of indigenous production of raw materials for small scale sector, the Ministry have stated that where the entire output of any particular material is canalised through an official agency, it would be possible for the Government to earmark a certain percentage for SS sector. In respect of other items it would not be possible to do so unless a control order is issued. The Ministry are not in favour of bringing all the types of different materials (numbering about 3200) required by SS industries under distribution control. The Committee would like the Ministry to note that the problem arises only in respect of critical raw materials and not in respect of all the 3200 items, required by SS units. The Committee feel that a beginning to earmark a reasonable percentage of indigenous production by an administrative order may be made straight-away in the case of raw materials produced and handled entirely in public sector. Informal efforts to persuade large producers in private sector to supply critical raw materials, to small scale sector on high priority basis which are stated to be already being made by Government should be intensified and results watched.

The Committee would like to be apprised of the concrete action taken in this regard with reference to public sector and private sector units separately. (S. No. 10)

2.49. The Committee would like that the Ministry should keep a vigilant eye on the requirements and availability of critical raw

materials for small scale sector and, if persuasion fails to produce results and the supply position reaches a critical stage, the Ministry should not hesitate to exercise statutory powers available to the Government with a view to helping the small sector out of the crisis. (S. No. 11)

C. Demand, allocations and actual supplies

2.50. It has been represented to the Committee that though the State Small Industries Development Corporation (SIDCs) have adequate data about the needs of the small units, they are unable to meet the requirements in different varieties, products or sections. The small scale units are, therefore, unable to plan their production and cannot use even the limited quantity allotted as their production needs are not matched.

2.51. It has also been represented to the Committee that the allocations from the main producers and Central agencies are never linked with the actual requirements registered with the SIDCs as in the case of DGTD units. The main producers after satisfying needs of the priority sectors like defence, railways and DGTD units release the raw material from the balance quantity which is always on lower side. Ultimately the availability of raw materials with the SIDC is most of the times as meagre as 25 per cent to 35 per cent of the requirements of the SSI units.

2.52. It has been suggested that the requirements of registered SSI units with the Directorate/SIDC should be properly linked with the raw material to be allotted through the Central agencies/main producers. Unless this is done the availability to the SSI units will continue to be at a low level for all the times.

A statement of demand for steel put forth by SIDCs alongwith the allocations for 1979-80 and 1980-81 is given below.

S. No.	Name of SSIC	1979-80 Demand in MT	1979-80 allocation in MT	1980-81 allocation in MT
1	2	3	4	5
1.	Andhra Pradesh	56,000	26,275	29,000
2.	Assam	13,950	8,000	11,000
3.	Bihar	17,983	15,075	15,160
4.	Chandigarh	44,220	12,400	13,000

1	2	3	4	5
5.	Delhi	1,48,900	42,500	45,960
6.	Gujarat	79,900	50,500	53,350
7.	Haryana	1,12,800	34,200	40,100
8.	Himachal Pradesh	17,180	4,750	4,500
9.	Jammu & Kashmir	36,305	17,500	19,015
10.	Karnataka	39,700	26,300	29,000
11.	Kerala	47,685	25,000	28,125
12.	M.P.	30,000	20,000	21,300
13.	Maharashtra	92,540	55,000	55,000
14.	Orissa	20,191	15,000	16,050
15.	Punjab	1,69,000	45,000	50,950
16.	Rajasthan	85,350	20,000	25,400
17.	Tamil Nadu	42,940	26,000	29,585
18.	Tripura	6,226	500	800
19.	U.P.	1,00,000	40,000	43,975
20.	West Bengal	45,520	32,136	36,904
21.	Pondicherry	5,400	2,000	2,300

2.53. The Ministry of Industry have stated that the State Small Industries Corporations do have adequate data about the needs of the small units in the respective States as they have been working in the field for quite some time. However, while placing their total demand, it has been found that they tend to over-estimate and sometimes what they ask for appears to be rather on the higher side. In fact, from the year 1978-79, a decision was taken to route more and more material to the small scale sector through the State Small Industries Corporations and allocations were made from that particular year by the Iron Steel Controller. The allocations and supplies of Small Industries Corporations since 1978-79 are given below:—

Year	Allocations	Supplies
1978-79	434,883 M.T.	332,969 M.T.
1979-80	525,536 M.T.	451,556 M.T.
1980-81	574,200 M.T.	

2.54. It is claimed on the basis of above figures that the allocations have been raised over the years substantially and the supplies were also reasonably good.

2.55. Secretary (Industry) stated during evidence that the steel demand in 1979-80 of SSIs with Small Scale Industries Corporations together was 1.2 million tonnes as against supplies of 0.5 million tonnes. This did not take into account the additional supplies of 0.8 million tonnes which were given through the stockyards directly. He pointed out, however, that the additional supply was done through the stockyards for which the demand figures were not available because they were registered in stockyards. The Committee were informed that the demand of steel allocation in 1979-80 was 45 per cent.

2.56. Taking note of the Ministry's view that the SIDCs tend to overestimate the requirements and what they ask for is on the higher side, the Committee enquired as to what were the reasons for the Ministry to believe that the demands placed by the SIDCs were inflated and how the allocations were determined in the absence of reliable data. The representative of the Ministry of Industry stated during evidence that when these demands from the Small Industries Corporations were received it was found that they were much more than the offtake of the last year. In many cases, it was 2 to 3 times more than what they had received. A reasonable demand figure was arrived at in the light of past offtake and communicated to distribution agency. He added:—

“the estimation of the Small Industries Corporations tend to be a little on the high side because they have a feeling that ultimately there will be a certain amount of pruning down and therefore they ask a little more than that we think is reasonable”.

2.57. As regards the reliability of the data the representative stated that the data was not unreliable. It might be overpitched and any data which was overpitched was not unreliable. He added that a reasonable part of it was allocated by cross checking the demand with the past offtake and assuming a certain growth rate.

2.58. It has been represented to the Committee that allocations of raw materials from main producers and central agencies are not linked with the actual requirements registered by Small Scale units with the State Small Industries Development Corporations (SIDCs) and the allocations made to the SIDCs are as meagre as 25 to 35 per

cent of the requirements. This is borne out to an extent by the information furnished by the Ministry in regard to steel demand put forth by SIDCs and allocations made in 1979-80. For example, AP got 26000 MT as against 1,48,900 MT; Maharashtra 55,500 MT against 93000 MT; HP 4750 MT against 17180 and UP 40,000 against 1,00,000 MT. The Ministry state that SIDCs do have adequate data about the needs of SS units but, it is stated, they tend to over-estimate while placing demand. Secretary (Industry) conceded that allocations were about 45 per cent of the demand. The Committee cannot help observing that on the one hand the Ministry complain of lack of reliable data of the small sector's requirement and where such a data is available through State agencies like SIDCs, it is not accepted as accurate. The claim of the Ministry that allocations of raw materials have been raised over the years would not meet the point unless these are related to reasonable and verifiable demands. The Committee urge that, instead of distrusting the demand put forth by SIDCs and applying across the board cuts on the basis of an unscientific criterion of past offtake, the causes which lead to over-estimation of demands by SIDCs should be analysed, an atmosphere of mutual trust created and the system of registering demands with SIDCs made more reliable so that the tendency to over-estimate is curbed and the legitimate demands of SS Units registered with State agencies are met at the right time. If this is not done, the SS Units' faith in SIDCs is likely to be eroded and this may bring in further problems in a field already beset with problems.

(S. No. 12)

D. Uncertainty & Mismatching in Supply of Steel Raw Materials

2.59. The following problems in regard to availability of raw materials have been brought to notice of the Committee:—

- (i) The raw materials are not received in time to enable small units to meet the clients' target. Invariably in steel items, suddenly certain sections become critical, depending on the rolling programme at steel mills. Some time some of the sections which are of common use are in short supply during the course of the year.
- (ii) The steel authority does not give weightage to specific needs of SS industries. The industries Department recommends for supply of different types of items but it is found that the required types of materials are not being supplied. Ironically raw material required in lesser quantity is dumped in excess.

- (iii) Small Scale Units are unable to meet the quality standards in absence of certified raw material inputs from the Government Department (for example SSICs) and they are invariably being forced to get raw materials from the open market. Certificates for quality of inputs by Government organisations such as SSICs are therefore, extremely essential to ensure the quality of the product manufactured by the small scale sector.

2.60. Expressing their views on the above problems the Ministry of Industry have stated that it is true that raw materials to small scale units are not always received according to their requirements and on time. This seems to be particularly true in the case of iron and steel items where the requirements cover a wide diversity of specifications. However, it seems to be due to the fact that the rolling programmes of steel mills are sometimes dislocated due to power shortages and other local problems which throws out of gear the planning schedule drawn up well in advance to meet the requirement of both the small and large sector industries. Consequently, some sections are supplied to the small scale industry corporation which they do not need while others which are in demand, cannot be adequately supplied. This, in turn, creates scarcity for the sections in short supply which naturally puts small industrial units in difficulty. The small industry corporations have been also complaining that the material supplied to them are not always of the required quality.

2.61. It has been stated by the Ministry of Industry that a suggestion has been made in this regard that the rolling programme should be decentralised as far as possible so that the steel re-rolling mills located in any particular area can cater to the requirement of the specific items to small industry in that area. The Ministry, however, fear that there is a limit to this process since it may not be possible for all the re-rolling mills to roll sections to the required specifications in all cases. Further, such a process is both cost and energy expensive and can only be used to meet particularly the demands of Small Units. In any case, the suggestion can be implemented only if the availability of billets & wires increases substantially.

2.62. The Ministry are of the view that the only way to solve the problem, ultimately is to increase the production of the billets and to ensure that re-rolling programmes are not adversely affected by shortages of power and other industrial problems.

2.63. The representative of the Ministry of Steel and Mines stated during evidence that there was difficulty in arranging the production so that all the sections were available all the time. There was limitation of the rolling programme. It was not possible, to guarantee that each and every section would be available all the time. The only answer to the problems was that somewhere down the line the material should be stored in between the rolling programmes as it is difficult for the producer to keep large stocks either at the plant or at the stockyard.

2.64. In regard to the practicability of the suggestion regarding decent realisation of the rolling programmes, the representative of the Ministry of Steel explained that the rolling capacity of the re-rollers was not adequate to cover the type of sections for which the small scale industry was dependent on mini steel mills.

2.65. The representative added that, re-rolling was a costlier affair where energy usage was much more than in a larger mill. Even if the re-rolling was used for this purpose, there was no price control on Mini Steel Plants, but the small scale industries would like to have the material of smaller quantities at the same price at which the integrated steel plants were selling.

2.66. The representative added further that the other problem faced in this regard was that the steel plants were not in a position today to enlarge the supplies of re-rollable material to such an extent as to meet the entire demand of small industries at the price at which they would like to have the material.

2.67. The representatives of the Ministry of Steel stated that some sections became critical where there was a disruption in the rolling programme. These sections might be in the range which could not, by any stretch of imagination, be produced by the mini re-rolling mills.

2.68. The representative of the Ministry of Steel added that if there was a shortfall in production as against the requirements the only way in which the shortage could be met was through imports. It was difficult to isolate one sector of economy like the small scale sector which enjoys high priority from the effect of an overall shortfall.

2.69. The Committee were informed that four (4) reviews of the rolling programmes in the Steel Mills were carried out during the year taking into account the shortfalls and projecting the requirements during each quarter.

2.70 Asked to state as to how the problem can be teckled, the Ministry, in a post-evidence note have stated that the requirements of different sections of iron & steel material for the small scale industries as requisitioned by the Small Industries Corporation are known. The capacity of rerolling industries is also known to the Government. Decentralisation of rolling programme is not the solution as re-rollers could only roll certain specific sections. In the circumstances, no useful purpose may be served by conducting a study. The only solution in the view of the Ministry is to 'stick to the rolling programme originally fixed and to evolve a system of advance information if some shortfalls/deviations are anticipated. The Ministry have assured they will initiate discussion with the Ministry of Steel in this behalf.

2.71. It is a matter of concern that in the matter of iron and steel materials the problem faced by small scale units is not only of short allocations vis-a-vis demand, but also of mis-matching of sections required by them and actually supplied by SAIL. Materials are not consequently received by the Small Scale Industries according to their requirements of specific types, sizes and sections with the result that their manufacturing programmes are thrown out of gear. The factors that contribute to this situation are reported to be dislocation of rolling programmes due to power shortage and other local problems.

2.72. The Committee understand that decentralisation of the rolling programmes could be a solution but this is not a practical proposition as re-rolling capacity in the country is not adequate and rerolling process is energy expensive and costlier. The Committee would therefore, agree with the Ministry of Industry that all efforts should be made by regular reviews and otherwise to ensure that the original rolling programmes are adhered to as far as practicable and a system of advance information should be evolved to communicate to the small industries units the anticipated shortfalls or deviations so that the small units can carry out necessary adjustment in their manufacturing programmes in proper time. It will also be useful, in the view of the Committee, if as suggested by Ministry of Steel and Mines adequate arrangements are made to store at suitable places items/sections of common use in between rolling programmes. The Committee would expect the Ministry of Industry to formulate a comprehensive scheme in consultation with the Ministry of Steel to deal with this problem.

(Sl. No. 13)

2.73. The Committee feel that, here too, if scarcity conditions in certain sections and items are foreseen to be developing to a level where the manufacturing programmes of small scale units are likely to be seriously dislocated, the Ministry should not hesitate to come to the rescue of SS units either by supplying the material from buffer stocks, if available, or by organising timely imports of the required materials after obtaining a firm agreement from the industries concerned to this course of action. (Sl. No. 14)

E. Supply of Raw Materials produced by Large Industries and required for Production of reserved items.

Raw Materials produced by large industries

2.74. It has been represented to the Committee that there are many large scale units manufacturing raw materials required by small units. It has been stated that these units in order to oust the small sector from competition restrict their supplies of raw materials to SS Units. The demand has been raised from time to time that no manufacturer who is a raw material producer should be allowed to manufacture the end products of the same raw material. Unless this is done the small units will not get sufficient quantity of raw materials.

2.75. For example, there are a few large scale units manufacturing PVC compound which is reserved for small industry. The large scale units restrict their supplies of PVC to small units and divert their supplies to their captive units with the intention of eliminating small units from competition.

2.76. When asked to state the factual position and the policy of the Government the matter, it has been stated by the Ministry that there is a general policy of the Government that the units manufacturing basic raw material should not be allowed to manufacture items where there is a strong small scale angle or if the items is reserved for the small scale sector. During the Licensing Committee meetings, this aspect is kept in view while giving industrial licences for the manufacture of and products.

2.77. In the case of reserved items in the small scale sector. it has been stated that no new large scale unit is allowed to manufacture such items for domestic consumption. However, there are cases where due to the licences issued prior to reservation, units

continue to manufacture such items even after reservation, because they cannot be asked to vacate these fields due to legal difficulties.

2.78. The Committee have been informed that there are five large scale units who manufacture PVC Resin which is converted into PVC compound for further processing into various PVC articles/products. Most of these large scale units also convert a part of their production of PVC Resin into PVC Compound. PVC compound was reserved for further exclusive development in the small scale sector only in December, 1977.

2.79. As a matter of policy, the large scale units are not allowed to enter into the field reserved for small scale. However, it has been stated that since the PVC Resin manufacturers have been manufacturing PVC Compound prior to reservation, there is no provision under which these large scale units can be asked to vacate from this field. However, the parties licensed after the reservation are not likely to be allowed to manufacture PVC Compound.

2.80. When asked if no exception had been made to the general policy that the units manufacturing basic raw material, should not be allowed to manufacture items where there was a strong small scale angle or the item was reserved for the small scale, the Secretary (Industry) stated during evidence that no exception had been made.

2.81. Regarding PVC Compounds, the witness assured the Committee that it would be ensured that the small industries get the PVC Compounds from the large units manufacturing PVC Compounds.

Supply of raw materials required for production of reserved items

2.82. It has been stated in a memorandum that some products are exclusively reserved for small scale industries for manufacturing like dioctyle phthalate but the main raw material required is octyl Alcohol which is manufactured by NOCIL and not a drop is reserved for small scale industries and they do not give this material to the small scale industries even after writing continuously for years. Then what is the use of D.O.P. being reserved for small scale industries?

2.83. Secretary (Industry) stated during evidence that conceptually the linkage between reservation of an item in the small sector and an obligation to supply all material to produce it had not

been done at any stage. He elaborated that when a particular item is reserved for the small sector the decision that the materials needed to produce it should be supplied to them in terms of a levy or a control order or an obligation is not taken at that stage of consideration. He added that when reservation was considered for any item, consideration should be given to this point. The witness stated that for 834 items on reservation list, 1200—1300 items of raw materials were needed and there was no control mechanism for the supply of all these raw materials.

2.84. With particular reference to Di-octyle Phthalate (D.O.P.) the Committee have been informed that DOP is reserved for further exclusive development in the small scale sector. One of its raw materials i.e. Octyle Alcohol is manufactured by M/s. NOCIL and M/s. Union Carbide. DCSSI has been receiving representations from the small scale manufacturers of DOP regarding non-availability of Octanol as per their requirement. Since indigenous production falls short of total demand of Octanol in the country, the import of this item has been allowed on a restricted basis under Appendix 5 in Import Policy for the year 1980-81.

2.85. To ensure the rational distribution of the indigenous material, DCSSI is stated to have suggested to the Ministry of Petroleum, Chemicals and Fertilizers (who are the administrative Ministry in the matter) on 24th September, 1980 to reserve 25 per cent of the production of NOCIL and Union Carbide for distribution among the small scale units. At the same time, they have suggested further liberalisation of imports of Octanol by including this item in the OGL list. The Ministry of Petroleum, Chemical and Fertilizers are considering necessary action in the matter. The Secretary, Industry stated during evidence that a positive answer to the request of the Ministry was expected.

2.86. The Committee have been assured that there are no exceptions to the general policy that large units manufacturing basic raw materials should not be allowed to manufacture items where there is a strong small scale angle or where the item is reserved for the small scale sector. There are, however, cases, the Ministry state, where due to licences having been issued prior to reservation, the large units are entitled and continue to manufacture such items even after reservation. Since PVC resin manufacturers have been manufacturing PVC compound prior to reservation, they cannot be asked to vacate. The Committee welcome the assurance of the

Ministry that they would ensure that the PVC compound materials are made available to the small scale units using this product for further processing. (S. No. 15)

2.87. The Committee would expect that, in the case of other raw materials also, even though the large manufacturing units might have been licensed prior to reservations, some measures, persuasive or administrative, would be taken by the Ministry, to the extent possible, to meet the genuine and legitimate needs of small scale sector. Otherwise, as feared, the small scale units would find it difficult to survive in those fields. (Sl. No. 16)

2.88. The Committee are surprised to know that while reserving an item for exclusive manufacture in small scale sector, Government did not consider it necessary to provide an assured supply of raw materials required for its manufacture. Reservation of an item for small scale sector without proper linkage with raw material source especially when its production depends mainly on a critical raw material in short supply is, in the Committee's view, an illusory concession not capable of doing any good to the small sector. While it is not necessary that a control order need necessarily be brought out to ensure supply of all the 1100—1200 items needed for production of 834 items on reserved list, the Committee hold that a general obligation does devolve on Government to see that as far as possible the critical raw materials generally in short supply which are required to produce reserved items are made available to the small scale units from assured sources. (Sl. No. 17)

2.89. As regards supply of Octyle Alcohol for use in the small scale sector, the Committee hope that the proposal of the Ministry of Industry for reservation of 25 per cent the product of NOCIL and Union Carbide for this sector would come through before long and the reasonable requirements of small scale sector would be fully met. (Sl. No. 18)

F. Payment of Advance Money

2.90. It has been represented to the Committee that it should be obligatory for all large scale units to supply indented raw material to small scale units on deposit of 1 per cent earnest money and against letter of credit or bank guarantee. The present practice of demanding 100 per cent advance payment against promised supplies should be done away with. The Ministry have stated that the

available information indicates that in most cases it is a fact that large scale units do demand 100 per cent advance payment against the promised supplies. Even the bank guarantees which are accepted in some cases, are not easy to get for the small units unless the money is deposited in full. The Ministry have agreed that while it seems desirable to impose a measure of discipline in regard to such transactions and to reduce the earnest money to a more reasonable figure, it seems doubtful as to whether the Government have the necessary power to compel large scale units in the private sector to provide the raw material in any specified manner. Hence the question of imposing restrictions on the manner in which sales are to be affected by the large units may have to be examined from a legal point of view.

2.91. During the evidence Secretary (Industry) stated that while the system of large units demanding full payment or full bank guarantee before supplies were made worked to the detriment of the interest of small units, the Ministry were not sure whether the legislative compulsion that a large unit should be legally forced to supply materials to small scale units on payment of 1 per cent earnest money would be feasible. Secretary stated that in his personal view "such a legislation is not going to be of much great use because these are relationships which develop over a period of time".

2.92. The Secretary added that in his view it was not desirable to legislate that all agencies should be compelled to give material to small scale units on payment of 1 per cent earnest money. The relationships of this sort must be developed under the aegis of the Ministry but through mutual concurrence.

2.93. As regards the bank guarantee, Secretary stated that the small scale units were not always in a position to furnish the bank guarantee. He suggested that a formula for payment should be evolved by discussion among the banks, large scale units and small scale units and the formula should be acceptable to them all.

Secretary (Industry) assured the Committee that the Ministry would take initiative in the matter.

2.94. The Committee take note of the feelings of the small scale sector that the present practice, under which large units demand 100 per cent of advance payment for promised supplies is rather harsh. But they also feel that even so, it may not be practical in

all cases to compel the large units to make supplies to small scale industries against payment of 1 per cent earnest money, as suggested. The Committee agree with the suggestion made by Secretary (Industry) that a suitable formula for payments should be evolved by discussion among banks, large scale units and small scale units and with their consent. The Committee expect the Ministry of Industry to take the promised initiative in the matter and bring consensus on modalities of payments among all concerned so to bring relief to small sector. . . (Sl. No. 19)

CHAPTER III

IMPORT OF RAW MATERIALS

A. Imports

3.1 It was stated by the Ministry that Government had taken a decision to import whenever necessary the estimated shortfall of raw material to augment the supplies through recognised government agencies.

3.2 The Ministry had claimed that under the new policy of Government of creating a buffer stock in scarce category of raw materials, to tide over the seasonal demand, some success had been achieved and the prevailing pressures on the canalising agencies had been substantially reduced.

Some of the representatives of small Scale Industries have, however, stated during evidence before the Committee that there has been little relief inspite of imports.

3.3 The Ministry have stated that Government allow in their import policies many items to be directly imported by actual users, either on an OGL basis or through licenses. The volume of such licence has increased substantially in recent years as can be seen from the following figures:

Value of Licences issued for three years

1977-78	Rs. 109.55 crores
1978-79	Rs. 184.58 crores
1979-80	Rs. 211.59 crores

3.4 The Ministry have stated further that in addition, Canalising Agencies, as a general policy, have been trying to hold buffer stock as directed by the Government to tide over the difficulties in the supply position. In some of the categories, they have been reasonably successful in their efforts. Not only have imports been increasing over the past few years, the stock position of some of the scarce materials is now more comfortable than it was in the previous years.

3.5. For example, Copper was a scarce commodity a few years back. The Supply of aluminium, especially EC Grade, was comparatively difficult in 1977-78 and 1978-79. Similarly, scarcity was also felt in such metals like tin, nickel, etc. It has been stated that due to the buffer stock policy; the position of these raw materials which were better to scarce, has substantially eased and in fact in some of the metals, the Canalising Agencies are holding more buffer stocks than was originally intended.

3.6. In the case of copper, MMTC is stated to be now holding stocks equivalent to five months requirements. In the case of Stainless Steel as well, the Canalising Agencies are holding 3 to 4 months stock. In the case of tin, nickel, cadmium etc., the position is stated to have become so comfortable that hardly any complaints are received. Similarly, in the case of EC Grade aluminium, due to increased supply from buffer stocks, allotment and deliverise have substantially increased.

3.7. The Ministry have, however, stated that external unanticipated difficulties often come in the way of smooth flow of metal to the market. The congestion at the port, diversion of ship from one port to another, fluctuations in the prices of internal market, and the scarcity of metal in international market are some of the basic obstacles in providing sufficient material as buffer stock.

3.8 Moreover, due to the sudden shortfall in indigenous production, due to shortage of electricity, coal, coke, transportation bottlenecks, etc., these agencies have to take an extra burden whereby their normal planning is disturbed. Taking all this into consideration, it could be said that the policy of keeping buffer stocks with the Canalising agencies has on the whole proved beneficial.

3.9 It was stated by the Ministry (September, 1980) in the preliminary Material (p. 10, 11) that:

“There have been some inadequacies noted in regard to the supply of raw materials through the canalising agencies. The raw materials sometimes are not available in the right quantity and at right time as requisitioned by the Small Scale Sector. The canalising agencies have also, to some extent, failed to estimate the overall requirements of material and keep an adequate buffer stock to tide over the seasonal increase of the demand. Perhaps, this is due to the fact that they are new in the field in some of the categories and it will take time to understand the

market mechanism and also estimate their future likely demand."

3.10. When asked if Government had analysed the reasons for canalising agencies' failure to estimate requirements and keep adequate stock or raw materials and if so, what were these and what measures were proposed to be taken to improve their performance, the Ministry stated in note (Dec., 1980) that :

"It may not be correct to say that canalising agencies have failed to estimate the overall requirements of the material and to keep adequate buffer stock to tide over the seasonal increase of demand. In some of the material, the canalising agencies have been able to do away with this scarcity condition hitherto prevailing. The external difficulties faced by the canalising agencies on which they have hardly any control, disturb their original planning of having adequate stocks. In some of the metals, it has been found that due to overall shortages in the world market, deliveries tend to be protracted and they are not able to procure as much as they need."

3.11. The Committee wanted to know as to how the quantum of imports in respect of scarce raw materials was determined; whether the requirements of SSIs were taken into consideration while doing this exercise and whether the quantum specifically imported for meeting the demands of SSI units was actually distributed to SSI units or it formed part of the common pool meant for both large and small units.

3.12-13 Secretary, Industry, stated during evidence (Jan. 1981) that whenever the critical materials were in short supply, action was taken to import such materials including iron and steel. While planning the imports the requirements of SSI units were kept very much in view. There were certain items which were made OGL which could be imported by small industries as much as by anybody else. Small industries could also import under certificate of essentiality.

3.14-15 The witness further stated that the imported materials was placed in common pool and it was not possible to earmark imported material specifically for distribution to small industries, but they were supplied according to their requirements from out of the common pool.

3.16-17. He added that there were certain materials where, because of imports, the satisfaction was complete and there was no shortage at the moment at all. In the case of copper, aluminium, tin, there was no shortage.

3.18. Government have taken a decision to import whenever necessary the estimated shortfall of raw materials in the country to augment the supplies through recognised agencies. In December, 1980 the Ministry of Industry claimed in a note submitted to the Committee that under the new policy of Government of creating a buffer stock in scarce category of materials to tide over seasonal demand, some success had been achieved and stock position of some of the scarce materials was stated to be more comfortable.

3.19. But, in a note submitted by the Ministry in September, 1980, it was stated that—

“there have been some inadequacies noted in regard to the supply of raw materials through the canalising agencies. The raw materials sometimes are not available in the right quantity and at right time as requisitioned by the small scale sector. The canalising agencies have also, to some extent, failed to estimate the overall requirements of material and keep an adequate buffer stock to tide over the seasonal increase of the demand. Perhaps, this is due to the fact that they are new in the field in some of the categories and it will take time to understand the market mechanism and also estimate their future likely demand.”

3.20. The position explained in the note of September, 1980 was later stated to be incorrect.

3.21. The Committee wish to express their unhappiness at these contradictory statements made by the Ministry within a span of 3 months. This, the Committee are constrained to observe, creates doubts as regards the Government claim on adequacy of stocks of raw materials built by canalising agencies. (S. No. 20)

3.22. From the Ministry's statement that “in some of the materials”, the canalising agencies have been able to do away with the scarcity condition hitherto prevailing, the conclusion is obvious that there are some materials which continue to be scarce. The Committee find that while planning imports, requirements of SSI units are kept in view; but the imported material is placed in a common

pool and no quantity is earmarked to be distributed to small industries. Small Industries, it is stated, are supplied according to their requirements from out of the common pool. The Committee see no reason why the quantum of imports made to meet the requirements of SSI units should not be earmarked for distribution to small industries. In the absence of such an earmarking, there is no guarantee that the imports made in the name of SSI units, will actually reach them and will not go over to large sector. The Committee recommend that shortfalls of critical raw materials required by small scale sector should be made good by timely imports and the imports made for small sector should not be diverted to any other Sector. (S. No. 21)

B. Phased Deliveries

3.23. It has been represented to the Committee that the materials are not delivered by the canalising agencies in a phased delivery programme and small units are asked to lift materials worth lakhs of rupees in one lot. If the small units do not take the delivery their entitlement for the subsequent period is denied.

3.24. The Ministry have stated that due to the external factors the materials imported by the canalising agencies do not reach in time and the canalising agencies get 3 to 4 consignments at the same time. In such a case accelerated delivery notes are issued by the canalising agencies against the past registered demand of the actual users at a time.

It has, however, been stated that this is not a regular feature but does happen occasionally.

3.25. It has been added that the fluctuations in the stock position is the main reason for the canalising agency for not taking deliveries according to a phased programme. The complaint of the small scale industries is that the phased programme does not apply to all items and for all times.

3.26. Asked if it was reasonable to cancel entitlements of SS Units of their quotas if they were offered deliveries, not in a phased programme, but in one lot, the Ministry stated that:

“the time limit of the sale notes are often extended when such exigencies are experienced. However, sometimes it has been seen that actual users delay lifting only to take advantage of the market fluctuations. Genuine cases of hardship are considered favourably and DCSSI has, in the

past, recommended such cases for consideration to the canalising agencies and the Monitoring Committee."

3.27. The representative of the State Trading Corporation stated during evidence that, the entitlement was not denied. The delivery time was extended and they could take delivery by the extended time. He added that in case the SS Units did not have finance, they could collect the materials by availing the credit facilities offered by STC under Bill Market Scheme.

3.28. The representative of MMTC stated that so far as MMTC was concerned, if the units were not able to lift material, they were offered an opportunity to give a revised programme, but the material was not denied. He added that it was very rarely that the material allocation was more than what the party had asked for MMTC was very flexible in this regard. No material was denied to the allottees and it was given as per their programme.

3.29. When due to external factors, the materials imported by canalising agencies do not reach in time and the canalising agencies get 3 to 4 consignments at the same time, accelerated sale notes are issued by the canalising agencies at a time against the past registered demand of the actual users. In such circumstances SS units, instead of getting deliveries in a phased programme, are faced with the problem of lifting large quantities of materials in one lot. The Committee have been informed during evidence by the representative of STC that, on such occasions, at the SS units request the delivery period is extended and the units can take delivery by the extended time. In so far as MMTC is concerned, if the units cannot lift the materials offered, they are given an opportunity to give an revised programme for lifting the material.

The Committee would like that the procedure obtaining in MMTC should be followed by STC also and the extended period for lifting material should be fixed in consultation with the SS units concerned. In such circumstances future entitlements should not be denied or delayed. The Committee would like the Ministry of Industry to make sure that no hardship is caused to SS units in the event of bunching of consignments.

(S. No. 22)

3.30. The Committee welcome the Bill Market Scheme in vogue in STC under which credit is available to SS units which are hard up for finance for lifting material. The Committee would suggest that the Ministry of Industry may explore the possibility of persuading other canalising agencies to introduce similar credit scheme for SS units.

(S. No. 23)

C. Delayed deliveries after payment

3.31. It has been represented to the Committee that while small units are asked to deposit money in advance for the material, the canalising agencies do not assure them as to when they would supply the material. The Ministry have stated that normally the sale notes are issued to the actual users only when the material is physically available to the canalising agencies. In a few cases, however, it has been reported that the canalising agencies could not get the material cleared from the customs or due to trouble at the port. The material could not reach the stockyards in time. In such cases, the deliveries were naturally delayed even after the full payment was made by the party.

3.32. The representative of STC stated during evidence that as far as STC was concerned there was no advance payment at all. While registering the demands of the Consumer industries, they paid 2 per cent of the cost of the material or Rs. 50,000 which ever was less. The entire amount had to be paid the time of delivery of the material. The delivery order would never be issued when the material was not in stock.

3.33. The representative of MMTC stated that such situations would rarely arise, as MMTC were maintaining a high level of inventory of such items. There might be some rare case where delivery had been delayed after receiving payment due to reasons beyond anybody's control.

3.34. The representative of the Ministry of Steel and Mines stated that in case of steel there could be cases where delivery order was issued for some material which was available at that time, but the party might not turn up to lift it. In the meantime there might be fresh arrivals in the stockyards and the stockyard accommodation being limited, there might be no alternative but to put the new material on the top of the old material. In that case if the party came later to take delivery, the canalising agency might not be in a position to deliver it immediately.

3.35. The Secretary (Industry) expressed the view that there had to be a certain balancing levy. If the material is ready for delivery but is not taken delivery of, a surcharge should be levied for the added inventory cost. Similarly, if full money has been taken and delivery note given but on the day the person comes for delivery, delivery is not given, the interest loss to the customer should be compensated. It has to be a two-way mechanism.

3.36. The Committee are informed that by and large there is no delay in supply of material to small scale units by STC and MMTC, after the money has been paid by the customers except in rare circumstances due to reasons beyond anybody's control.

3.37. As regards steel, however, the Committee find that a case might occur where delivery order is issued for some material which was available at that time in the stockyard but the party does not turn up to lift it. In the meantime fresh arrivals of materials are piled on top of the old material. The delivery in such a case is delayed.

3.38. The Committee agree with the Secretary's (Industry) suggestion for introducing a two-way mechanism under which if the material is ready for delivery but the delivery is not taken, a certain surcharge should be levied for the added inventory cost; and if full money has been taken and delivery note given but the delivery is not given on the day the person comes for taking delivery, then the customer should be compensated for the interest loss. This mechanism would discourage delays not only on the part of suppliers but also on the part of customers.

3.39. The Committee would like the Ministry of Industry to process this suggestion and apprise them of the outcome.

D. Actual User Licence facility

3.40. It is stated by the Ministry that certain safeguards have been entered in the present Import Policy where by an actual user (AU) who has registered requirements for allotment of canalised items could have a direct import licence in the event that the canalising agency is unable to register his requirement and give a clear indication of the supplies as per schedule within a period of 90 days.

3.41. The Ministry have admitted that in practice small scale units do not get the full benefit of this facility. This is because of the difficulty of the unit in locating a foreign supplier, particularly for the small quantity required and the procedural delays involved. Recognised Associations of small units can bulk the requirements and import the material but the practice is not common. Another solution, it has been stated, to have an agency like small Industries Corporation to bulk such requirements and allow them to import the material on behalf of the Actual Users.

3.42. On being asked whether the period of 90 days given to a canalising agency to give a clear indication can be reduced to 30 days, the Ministry have stated that the suggestion is welcome but agencies may have operational difficulty in implementing it. If the import is done on individual requirements, it would obviously not be possible to adhere to the 30 days time limit. Sometimes, the canalising agencies decide to import if there is a wide-spread demand for an item and this takes time.

3.43. The Ministry have stated that the time that would be taken by an Actual User to get the import licence from the Chief Controller of Imports and Exports after getting a 'no objection' certificate from the relevant canalising agency would be 30 to 45 days. There is a general directive that such licence should be issued within 30 days. The time taken to actually get the material would depend upon the material and the mode of transportation whether it is by air or sea. It could be anywhere between 2 to 6 months.

3.44. It would thus be seen that a small unit would not be able to get the imported raw material in such circumstances before 8 months at least. This does not include the time taken for registration with the canalising agency and getting a "no objection" certificate from the agency.

3.45. It is agreed by the Ministry of Industry that the above facility is difficult and complicated for the small scale unit to obtain a real benefit except where they are located in the metropolitan cities.

• 3.46. When point out that this facility of AU licence which was laden with so much of procedural difficulties that a small scale unit in the circumstances would have to remain without the required raw material for almost a year, Secretary, Industry stated during evidence that with regard to the canalisation of imports the earlier system was that a canalisation system was evolved to supply the material on the issue of a 'no-objection' certificate to that unit. Then the unit, before it got an import licence on the basis of that 'no-objection' certificate had to get an approval from a committee under the Chief Controller of Imports and Exports. This procedure had been causing some delay. This procedure has since been simplified and powers have been delegated to the licensing authorities up to certain specified limits: they can now straight away issue import licence on the basis of 'no objection' certificates issued by the canalising agencies and this procedure which was introduced recently is working well and delays have been considerably reduced.

3.47. The Ministry have informed the Committee that State Small Industries Corporations have been advised to get bulk import of raw materials for supplying the requirements of small industry. In a few instances, such as Maharashtra & Gujarat. Small Industries Corporations do so but in most cases they have not found it easy to import materials from abroad. One of the reasons is the procedural difficulties in the insistence on obtaining a specific foreign exchange allocation by the Corporation when bulking is done even when import is permitted on CGL. In other words, the Corporations do not have the facility which Actual Users have.

3.48. Secretary, Industry, stated in this connection during evidence that while the small industries corporation was free to import, the problem was that even if an item was freely importable they had to take an Actual Users' licence. They could not import straightaway. This problem was under consideration and with this the procedural bottleneck would be removed and the Small Industries Corporations would allowed to import as actual users straightaway. He stated that the actual users and the associations could import the material. This hurdle applied only to SIDCs and was being removed.

3.49. Certain safeguards have been provided in the present import policy whereby an actual user who has registered requirements for allotment of canalised items could have a direct import licence when the canalising agency is unable to register his requirements and give a clear indication of supplies as per schedule within a period of 90 days. But this facility of import as an actual user is laden with so much of procedural difficulties and there are so many procedural stages to cross each stage taking some time—that even if a small-scale unit chooses to avail of it, he cannot hope to get the required material before a year. What makes the Committee unhappy is that the Ministry of Industry have been fully aware of the illusory character of this facility of direct import and they have not been able to do anything worthwhile to remedy the situation. The Committee recommend that the entire range of procedure relating to entitlement to get “no objection certificate” from canalising agency and issue of AU licence should be reviewed with a view to cutting down the time to the absolute minimum. (S. No. 25)

3.50. This alone will not solve the problem fully. The Ministry should be able to help the SS Units interested in making direct import of material under AU licence in locating foreign suppliers without delay and guide them on the most expeditious method of

obtaining the imported material. The Committee would expect the Ministry to work out a comprehensive Scheme to make this facility real and useful. (S. No. 26)

3.51. The Committee find that the Small Industries Corporations who can bulk the requirements of import materials on behalf of the small units are also handicapped in availing of import facility as they do not have with them the facility which the actual users have and they have to obtain foreign exchange allocation even when import is freely permitted under OGL. The problems of SIDCs in this field are stated to be under consideration. The Committee recommend that procedural difficulties of SIDCs in importing materials on behalf of SS Units should be removed without delay and the Corporations should be enabled to import material in such circumstances without difficulty. (S. No. 27)

E. Pricing Policies of Canalising agencies

3.52. A system of fixation of prices of Canalised items has been in vogue since 1970-71. Only from the Licensing period 1976-77 a specific provision was made in the import policy to the effect that the price of canalised items would be determined by the pricing committee headed by the Chief Controller of Imports & Exports, New Delhi. The concerned Ministries i.e., Ministry of Finance/ Department of Economic Affairs, Deptt. of Steel, Economic Advisers in the Ministry of Industry, DGTD, DCSSI and the other administrative Ministries concerned are the members of the Committee.

3.53. The Committee have been informed that of late, the pricing committee has been taking up a large number of items for fixation of prices on specific basis instead of allowing the prices to be determined by the application of a general formula. The items which were taken up for specific price fixation are non-ferrous metal, i.e., Copper, Lead, Nickel, Zinc and Tin, Stainless Steel sheets/strips, sulphur and Rock phosphates, news prints, mutton tallow/fatty acids, natural rubber, LDPE, HDPE, TV pictures tubes, melting scrap, alloy steel ingots/bars/billets/rounds/rods etc. The pricing Committee adopted a general formula whereby the Canalising Agencies were to compute the released price for such items by taking into account the expenses incurred in handling imports i.e., bank charges in the opening of letter of credit, interest of transit/voyage at bank rate, customs duty and countervailing duty, port handling charges, clearing and transportation charges, godown rent, interest of block capital for the holding period of the material at the bank

rate plus the service charges of the Canalising Agencies at a fixed rate which varied from 1 per cent to 5 per cent depending upon the nature of the item.

3.54. It has been stated by the Ministry that while considering the prices of some of the material such as polyester filament yarn, stainless steel sheets/strips, alloy steel ingots/bars, edible oil including Red Palm oil, it has been necessary to mop up excessive profit so as to keep a parity of the local and the imported prices. Where the price differential between the landed cost of the imported material and the indigenous material is substantially wide, the release price of the Canalised items is suitably marked up and the extra amount so realised is required to be credited to the Government exchequer.

3.55. It has been explained that the policy adopted by the pricing Committee is to fix as far as possible, price of the canalised commodities, keeping the price level as low as possible and ensure that the Canalising Agencies do not in the process make anything more than what could be construed as reasonable or fair profit, out of such transaction.

Pooled Prices:

3.56. It is to the contention of the small scale industries that whether prices of imported material are more or less than the indigenous material, the system of pricing of canalising items and of pooling of prices results in raising the price of raw material and that either way, this system acts to the disadvantage of small scale units.

3.57. It has been stated before the Committee that pooling of prices should not mean that the prices should be raised to highest operational level. The Ministry have stated that the pooling up of prices is applicable to raw materials which in spite of indigenous availability have to be imported to meet the requirements of the industry. Presently, for some of the important items like Aluminium, Iron & Steel and some Drugs items which are both produced indigenously and imported in the country, the system of pooling up prices has been made applicable. Generally, the pooling up of prices is done by the adjustment of import duties and through a mechanism of pricing equalisation funds created for the purpose. In case the imported material is more expensive than the indigenous price of the material and if it is possible by adjusting the import duties to bring down the price of imported material to the level of indigenous

material, the import duty is adjusted accordingly. In some cases, the total import duty has also to be foregone to equalise the imported prices of metal with the indigenous price. However, if even after the waiving of the import duty, the prices of imported metal is found to be more than the indigenous price then the mechanism of price equalisation fund is brought into effect. In such cases the total cost of imported metal and indigenous metal are pooled together to arrive at a new price. The increase in the price of the indigenous metal over the retention price goes to the equalisation fund to compensate for the higher cost of import.

3.58. The general formula made applicable for the fixing of pooled price in the case of aluminium, steel and drugs items are given below:

- (i) Availability of imported raw material (tonne) on the date of pooled prices with the canalising agencies and the anticipated arrival during the course of the year based on the import plan approved from time to time = X tonnes
- (ii) Weightage average CIF prices of the imports of the quantities already imported and the CIF prices of likely imports on the basis of quotations/tenders = Y Rs.
- (iii) The likely indigenous production by the producers as estimated by the indigenous Producers = A tonne.
- (iv) The price for indigenous production as fixed by the Government from time to time = Rs. B

pooled price = $\frac{X \text{ (total likely import in the year) } \times Y \text{ (Prices as fixed by the CCI\&E)} + A \text{ (likely indigenous production)} \times B \text{ (price of the indigenous metal)}}{X + A}$ divided by X A.

3.59. The Ministry are of the view that as the pooled price is applicable to all actual users large and small, the system does not particularly act to the disadvantages of the small scale units. The Ministry have stated further that as the prices of imported material under the pooled price system are higher than the indigenous material, the small units have to pay less price under this system than they would have had to pay if they imported the material direct. In addition, the total availability of such scarce material is increased for the small scale sector.

3.60. The representative of the Ministry of Steel and Mines stated during evidence that the pooling of price was being done only in respect of buffer imports. Imported steel was being supplied here on domestic price. There was, therefore, no disadvantage to the small scale industry.

3.61. The Secretary, Industry added that in case of cement and iron and steel buffer stock whereas the import price was higher, it was sold at the indigenous price. The second motive was that where the import price was lower, it was marked up to the indigenous price. The third aspect was the pooled price as in the case of drugs whether the selling price was fixed in between local price and the imported price.

Service Charges

3.62. It has been stated in a memorandum submitted by an organisation that the service charges of the canalising agencies are prohibitive and beyond the reach of consumers which make the units difficult to compete with others in the market. A representative of this organisation stated during evidence before the Committee that on average the service charges were from 5 to 10 per cent but in some cases they were even 30 per cent. A representative of another organisation also stated before the Committee that:—

“Apparantly, they charge as 2 to 3 per cent. But when we find the difference between the import price and the actual price charged, it may sometimes amount to 25 per cent.

3.63. The Ministry have stated that the service charges of the canalising Agencies vary from 1 to 5 per cent depending on the nature of the item. This may not be considered very high, taking into account the establishment cost of these agencies and the costs of the maintenance of the godowns.

3.64. When any material is imported as a canalised item, its price is fixed either under the system of fixation of prices of canalised items by pricing Committee headed by Chief Controller of Imports & Exports or under the formula regarding pooling up of prices of imported and indigenous materials. Where the price differential between the landed cost of the imported material and the indigenous material is substantially wide, the released price of the canalised item is marked up in order to mop up excessive profit and to keep a parity between local and imported prices. In certain

cases where even after the adjustment of import duty, the price of imported material is found to be more than the indigenous price, the total costs of indigenous and imported material are pooled together to arrive at a new price—the pooled price—which is higher than the indigenous price (though lower than landed cost). In other words under this system either the prices of imported material are marked up or those of indigenous material come to be raised. The end result is that in either case the small scale units (as also other units) have to pay higher prices and are the losers. The Committee do not think this is an ideal system, especially for the small scale sector whose capacity to pay higher prices is limited. In the Committee's view there is need for a review of the system of fixing prices of canalised items and pooling up of prices. The aim should be not to make any gain either for the Government or for the price equalisation fund. The Committee hope that this matter would receive a dispassionate consideration. (S. No. 28)

3.65. It has been represented to the Committee that the service charges of canalising agencies are very high ranging from five to ten per cent and these go up to 30 per cent in some cases. This allegation has, however, been denied by the Ministry which have informed the Committee that the service charges of the canalising agency vary from 1 to 5 per cent. This appears to be a case of communication gap between the small scale units and the canalising agencies. The Committee recommend that, on the one hand, the Ministry of Industry should satisfy themselves that the service charges of the canalising agencies are actually what they say these are (i.e. 1 to 5 per cent) and that they do not levy any additional charge on account of service expenses under any other name; and on the other hand, they should impress upon the canalising agencies that there is need for the small scale units and their representative organisations to be taken into confidence in regard to the exact quantum of service charges levied by the canalising agencies so that they don't labour under any misunderstanding on this account.

(S. No. 29)

F. Lifting of Material on High Seas

3.66. The material which is imported can be transferred by the importing agency to the actual user or the indenter when the material is still on the high seas or before it reaches the port of destination. This would avoid inter-state Sales Tax and other local taxes which would otherwise need to be paid. It does not, however, eliminate the payment of import and other duties imposed by the Government.

3.67. It has been stated by the Ministry that this facility is made use of by the large scale units to reduce the cost of the imported raw material. Although small units have the same facility, they do not in practice make use of it due to the procedural difficulty in transferring the material on the high seas. A few small industries corporations have, however, been doing so on behalf of the small-scale units but this is not still a common practice. In order to protect the interest of the small scale sector against the large units who have an unfair advantage, the practice of transfer on the high seas has since been discontinued in most cases of non-ferrous metals by MMTC.

3.68. It has been further stated by the Ministry that some policy decision is needed to see that the small-scale units who are not able to lift material on the high seas basis are not put to disadvantageous position price-wise compared to the large-scale sector.

3.69. It is understood that a substantial portion of imported material is taken delivery of by the large scale industries on the high seas and they are thus able to get raw material at a much cheaper rate. The interest of the small-scale sector is thus jeopardised at the very first stage of supply of raw material.

The Development Commissioner Small Scale Industries stated in evidence that the problem could be solved if a single agency like state industry corporation could lift the material on high seas and distribute it among small scale units.

3.70. Secretary, Industry, explained that the small scale industries associations could also import and could take delivery on the high seas. but these Corporations too had a procedural problem. Small Scale Industries Corporations are today not recognised as "actual user" and they have to take actual users licence before they could import. The witness added that this procedural difficulty was expected to be solved shortly and then the small Industries Corporations would not have to take a licence and they would be able to import as any individual small scale units. They would then be able to take delivery on the high seas without any difficulty'. This would enable small Industries Corporations to get exemptions of sales tax etc.

3.71. Large scale industries are at present able to take delivery of a substantial portion of the imported material at high seas on which they do not have to pay Inter-state Sales Tax and other local taxes.

They are thus able to get raw material at a much cheaper rate and the interest of the small scale sector which also has this facility but has not been able to make use of it due to procedural difficulties is thus jeopardised at the very first stage of supply of raw materials. The problem of small scale units could have been solved if even the Small Industry Corporations could lift the material on high seas on behalf of small scale units and distribute it among them. But these Corporations too have a procedural problem that they are not recognised as "actual users". The Committee are informed that this procedural difficulty is expected to be solved shortly. The Committee urge that this procedural constraint should be removed forthwith so that the small industries Corporations could also lift imported material on high seas and, supply it to small scale units at a cheaper price than at which they are able to get it at present.

(S. No. 30)

C. Warehouses of Canalising Agencies

3.72. It has been represented to the Committee that in some States the canalising agencies have no warehouses and the S.S. Units in these states have to get raw materials from far off places like Delhi or Calcutta where these agencies have their warehouses. The SS Units have therefore to bear the incidence of Central Sales Tax and transport charges in such States. It has been suggested that the canalising agencies should have at least one raw material depot in each State.

3.73. The Ministry have stated that the suggestion that the Canalising Agencies should have at least one raw material depot in each State is no doubt desirable but it may not be practicable in view of the expenses involved. This would invariably add to the servicing charges and the cost of the material.

3.74. Alternatively, the Ministry have stated that it would be more practicable to suggest that the Small Industries Corporations who are presently having a net-work of godowns within the State could be used by the Canalising Agencies for the distribution of the material. The Corporations can act as sub-agents to the Canalising agencies for this purpose. The already available infrastructure could thus better be utilised in a more organised manner.

3.75. The Committee enquired if this proposal had been taken up with the canalising agencies and the State,

3.76. Industry Corporations. The Ministry have stated that the principal canalised items in this regard would be non-ferrous metals (canalised through MMTC) and some chemicals canalised through *ad-hoc* imports by CPC/STC. MMTC are already using some State Small Industries Corporation's warehouses as outlets in respect of non-ferrous metals and stainless steel handled by them and are exploring the possibility of extending such practices in other States also. As regards chemicals where *ad-hoc* imports are made by CPC/STC from time to time, the matter has not so far been taken up with them for opening of distribution centres, because these are *ad-hoc* imports made only at the time of scarcity.

3.77. The Committee have been informed by the Ministry that MMTC have already opened such distribution centres at Ahmedabad, Bangalore, Yamunanagar, Ludhiana and Kanpur where the respective Small Industries Corporations act as a Storage-cum-Handling Agencies on behalf of MMTC for all their materials.

3.78. Arrangements are also stated to have been finalised for setting up such distribution centres at Hyderabad, Cochin and Jaipur in cooperation with the State Corporations concerned.

3.79. MMTC would consider opening of centres in other States as and when the establishment of such Centres is justified taking into account the quantum of material to be handled. The question of covering remote areas within a State could be taken up after MMTC had set up such centres in all the States.

3.80. The Committee agree with the Ministry of Industry that instead of asking the canalising agencies to open a raw material depot in each State, as suggested by small scale sector, the difficulties of SSI units would be solved if the godowns of the State Industry Corporations could be used by canalising agencies for storage and distribution of the raw material. The Committee note that MMTC is already using the infrastructure of Small Industry Corporations at a number of places in the country where the Corporations are acting as storage-cum-handling agencies on behalf of MMTC for all their materials and it is prepared to consider opening up of similar depots at other places if considered justified. The Committee would suggest that other canalising agencies should also be persuaded by the Ministry of Industry to arrive at similar arrangements with the State Industry Corporations to enable the small scale units to obtain the material economically and easily from centrally situated godowns in their respective States.

(S. No. 31)

H. Buffer Stock

3.81. The Ministry have stated that canalising agencies of the Government are implementing a policy of buffer stocking of critical raw materials in respect of a few items by supplementing through imports the production within the country. This has been done in the case of stainless steel, tin, nickel, copper, etc. The canalising agencies import materials of the above products in excess of the estimated demand so as to tide over seasonal fluctuations in demand within the country.

3.82. The Ministry have added that since this has been found to be useful for providing a greater availability of raw materials to the small scale units, Government have now under consideration a policy of extending the buffer stocking to a greater number of raw materials. For this purpose, the following raw materials have been identified: Iron & Steel, Pig Iron, Mutton Tallow, Paraffin Wax. It is proposed that approximately 20 per cent of the normal allocations now being made in respect of each of the materials may be set apart as a buffer stock with a designated agency probably the NSIC. That agency will be required to maintain adequate stocks of these materials at key points so that small-scale units who have not received the material already allocated due to transport bottlenecks or by their remote location have not received average level of satisfaction provided to small-scale units in other parts of the country, can be provided material from *off-the-shelf*. Further, the small-scale units who have a time-bound commitment either for export or for ancillary production will also be assisted in this matter. The national canalising agency may take the assistance of the State Small Industry Corporations or any other State level agency, in effecting the distribution of raw materials to the small-scale units.

3.83. The Committee have been informed that the administrative ministries concerned have been requested to let the Ministry of Industry know whether the quantities of the above items can be made available either from the indigenous production or through imports.

3.84. In addition to the above, a number of items which are not canalised like commercial grade aluminium, PVC, HDPE, Soda Ash, Caustic Soda, etc. will also be obtained from the indigenous producers and stocked with the designated national agency.

3.85. The Ministry have stated (Dec., 1980) that details of the scheme are now being worked out and it is expected that, when implemented, this will help in meeting the shortages now being experienced by the small-scale units.

3.86. The Secretary (Industry) informed the Committee during evidence that the buffer stock scheme would be finalised in about 2 months' time.

3.87. The Committee welcome the Govt. policy of establishing buffer stocks of critical raw materials by supplementing through imports the production within the country. This has been done in respect of stainless steel, tin, nickel and copper and the scheme will be extended to iron and steel, pig iron, mutton tallow and paraffin wax. The Committee were informed that details of the scheme were to be worked out by end of March, 1981. They would like the detailed scheme to be published immediately for general information of small scale sector and it should be implemented efficiently to provide relief to small scale units all over the country. The Committee hope that the Ministry will not hesitate to extend the scheme to other items also as and when considered necessary. (S. No. 32)

CHAPTER IV

DISTRIBUTION OF RAW MATERIALS

A. Role of Small Industries Corporations as Distribution Agencies

4.1. The Ministry of Industry have stated (Sept., 1981) that at the State level, State Small Industries Corporation look after the procurement and distribution of scarce category of raw materials to the small scale sector. They have taken over the procurement and distribution of iron & steel at the State level. Some of the Corporations have also taken up responsibility for the distribution of non-ferrous metals like zinc, by procuring raw materials from the primary producers. It is the policy of the Government to encourage this step so that the Small Industries Corporations at the State level become ultimately the only agency of procurement and distribution of raw materials to the small scale units.

4.2. In a subsequent note the Ministry stated that the effectiveness of their (SIDCs') operations, however, depends upon the expertise and resources, which vary from State to State. Further since the Corporations where they are effective, are able to bypass the middlemen, there has been a certain motivated criticism of their working by persons who feel deprived of the normal commissions to which they were formerly entitled as middlemen. Hence Small Industry Corporations are somewhat handicapped on the one hand by inadequate allocations from the producers and a barrage of criticism from the industry and other interested parties. It is, however, the policy of the Government to extend their operations so as to cover increasing number of items since there is found to be no other effective alternative to using them as the main channels for distribution.

4.3. Criticising the policy of the Government in regard to canalising the raw materials for distribution to small scale industries a representative of State level non-official organisation of SS units stated during the evidence before the Committee that:—

“So, I can say that we are heading towards disaster, because our Small Industries Corporation is very ineffective. They have neither knowledge nor experience about things. I still fail to understand why a State agency should be

encouraged to handle this sort of trade, where there is no involvement. After all, those who are in the trade know how to deal with it—to indent, get supply etc.—because their money is involved. But I do not say that you go to the trade, but at least you can go to the co-operatives of the industrial sector themselves; wherever they are agreeable, they should be encouraged to form the cooperatives, get their raw-material and distribute it as per the allocation which was done by the assessment authority. They have indented for some material which is lying there. They are not able to dispose it of. Their price structure is so defective that in the market it is available at a cheaper price and they want a higher rate. When some scarcity will come up, they say they have not lifted all the goods.

4.4. Representative of another non-official organisation expressed his views in this regard as follows:—

“We have no objection to canalise this raw material through the State Development Corporations provided, of course they are obliged to give answer to some Central organisations where their activities can be coordinated and monitored. What happens is that when we go to the State Development Corporation, they simply show their inability by saying that they do not have the finances and they are unable to have the material in time. Sometimes they say that wagons are not there. Like this, they have some excuse or the other. So, what we want is that while we appreciate that scarce inputs can be canalised through the State or district agencies or whomever the Government feels, they must be answerable to some agencies which, at the present moment, they are not. Their activities such as their distribution should be monitored. Subject to this, we have no objection.”

4.5. The Committee pointed out during evidence that when admittedly in certain States the Corporations had not been functioning effectively why the small scale units in such States should be compelled to be at the mercy of such corporations even when the Corporations had failed to achieve the objectives set forth before them.

4.6. Secretary (Industry) observed that Small Industries Corporations functioned as nominated distribution agency, nominated not only by the different governments but the small industries

themselves. The Secretary stated that the small industries were not compelled to nominate the Small Industries Corporations as the sole distribution agencies. In respect of some items even the associations had been nominated as agencies. On the country, the experience was that their trained service and expert advice was being utilised in consolidating the demands, procuring raw materials and distributing them to small scale industries.

4.7. When asked if he would suggest that all the items should be canalised through SSICs, Secretary (Industry) replied that most of the scarce materials, particularly iron and steel materials were being distributed on the basis of past off-take and not on the basis of assessed needs. Therefore, the volume of materials they got was, in fact, a fraction of the needs. Secondly, the question was whether whatever little they got they were distributing equitably or not. The Secretary added that in some cases the complaints had come to the Ministry's notice also and that these were being looked into. The Ministry were trying as far as possible, to evolve a pattern so that the small scale industries got their materials equitably.

4.8. The Committee take note of the policy of the Government to encourage State Small Industries Corporations to look after the procurement and distribution of scarce categories of raw materials to small scale sector at the State level so that ultimately the Corporations become the only agency of procurement and distribution of raw materials to the small scale units. Certain non-official circles feel that the SSICs neither have the knowledge nor the experience to handle procurement and distribution of raw materials. A non-official organisation has, however, stated that it has no objection to channelise raw materials through State Industries Corporations provided they are made accountable for their performance in this field to some central organisation which should also coordinate and monitor their operations. In the Committee's opinion channelisation of scarce raw materials through State Industries Corporations is unexceptionable on principle. But this experiment can be a success only if the SSICs acquire the necessary expertise, motivation and resources to discharge this responsibility efficiently and economically. The Committee would urge that the Ministry of Industry should not only see that the SSICs are properly equipped to handle this commercial operation in a business-like manner but also evolve a pattern of organisational arrangement to monitor and coordinate their working with a view to ensuring equitable and efficient timely distribution of raw materials to small scale sector and applying correctives whenever and wherever found necessary.

(Sl. No. 33)

B. Working of the Small-Scale Industries Corporations

4.9. The working of the small-scale industries Development Corporations (SIDCs or SSICs) in regard to distribution of raw materials for small scale industries has come under criticism before the Committee on the ground that they have failed to meet the demands for raw materials due to faulty planning; that their price structure is so defective that in the market it is available at cheaper price than the prices charged by them; that they suffer from shortage of funds and that they are not answerable to any centralised authority in regard to this function concerning supply of raw materials to small scale industries.

4.10. The Ministry have stated that the small Industry Corporations are established by the State Government and are, therefore, accountable to them through the Boards nominated by the State Governments for their operations. However, in-so-far as the distribution of raw materials is concerned, they follow the guidelines issued from time to time by the specific canalising agencies of the Government who supply them the material for distribution.

4.11. The Ministry have stated further that the working capability of Corporations varies from State to State depending upon their background, the stage of development and the managerial and financial resources available to them. In states like Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Karnataka, the Small Industry Corporations have considerable experience in this regard to distribute the raw materials and are, therefore, easily able to discharge this function. In some of the other States, due to frequent changes of Chief Executives as well as the inadequate financial resources made available to them by the State Government and their own general inability to raise further finance from the banks, the State Small Industry Corporations have not been able to function effectively in this regard.

Service Charges

4.12. The Ministry of Steel have provided a specific service charge for one tonne of material to groups of States depending on the transportation needs for which they have to incur charges in obtaining the material. These are based on the recommendation made by the High Level Committee of the Ministry of Steel headed by an Additional Secretary.

States	Amount of rebate per tonne
1. Delhi	Rs. 100
2. Punjab and J & K	Rs. 110
3. Chandigarh, Gujarat, Haryana, Kerala, Orissa, Tamil Nadu, Maharashtra, West Bengal	Rs. 140
4. A.P., Assam, Bihar, Karnataka, Rajasthan, Himachal Pradesh, U.P. Tripura, Pondicherry, M.P.	Rs. 160

4.13. The Ministry have stated that rebate of Rs. 40 per tonne to be passed on by them to SSI units is to be given to the Corporations over and above the amount given above. Moreover, there has been a general complaint by the Small Industry Corporations that the above charges are inadequate to meet the cost of over-heads in handling this operation, as well as in keeping the stock of the material for considerable periods of time. The Committee have been informed that the small Industry Corporations, though their National Council, have been repeatedly pressing the Government for enhancement of the service charges which is under consideration of the Ministry of Steel. On the part of entrepreneurs, there have been complaints that some Small Industry Corporations have been charging, in addition to the service charges, various types of levies which cumulatively would add up to a higher price on the material than if they were to take it directly from the stockyard. The small Industry Corporations have been advised not to levy these charges but in view of the anxiety of the entrepreneurs to get the material even at a higher price, it is feared that Corporations still continue to levy such charges.

4.14. The Ministry have further stated that Steel being a controlled item both from the point of distribution and price, the SSCIs are not allowed to charge more than what are stipulated by the Iron and Steel Controller for each item. The SSCIs have been asked by the Ministry of Steel to adhere to the price regulation laid down by the Government of India. SSCIs have also been asked to forward a copy of their price list to the Iron & Steel Controller and the JPC who would verify the prices from time to time.

4.15. However, the Ministry have added that the complaints have been received saying that the Corporations have been levying extra charges in many forms whereby the ultimate price of the material goes up.

4.16. Secretary (Industry) stated during evidence that:—

“.... the levies which were determined with regard to iron and steel items were only upto a particular point. If the small Industries Corporation, after taking the delivery at a particular point, had to transport those to different points in the State for supply to small scale units, they necessarily have to add the transport charges. Therefore, it would be incorrect to say that the Small Industries Corporations are making levies or raising levies which did not correspond to their actual cost. Apart from the fixed service charges the Small Industries Corporations do not make any levies which do not correspond to the actual cost of transporting the materials or delivering the materials at the point where the small industrial units want them to deliver. So it is not correct to say that they are making levies for their profit”.

4.17. When it was pointed out that the Ministry had themselves expressed anxiety over this matter and had advised the Corporations not to levy these charges, the Secretary (Industry) stated:

“If they have been advised, they have been wrongly advised. They have been advised on a wrong appreciation of facts”.

4.18. The witness added that— “.....the only thing which can be suggested as a remedy is that charges should be fixed for delivery at particular points and any charges which were to be levied in order to carry the material from that particular point to different points can be based on actuals”.

4.19. Elaborating this point, the Development Commissioner, Small scale Industries stated that according to the pattern of distribution through small Scale Industries Corporation the materials would be given to them at concessional rates and Rs. 40 per tonne of concession would be passed on to the small scale industries. The complaint received was that small industries were not getting this concession of Rs. 40 and that a greater portion of this amount was being absorbed by the Corporations. The argument of the Corporations was that they had to pay for transportation etc. that was not envisaged earlier. This matter was being discussed with the Ministry of Steel to see how best the legitimate expenses incurred by the Corporations could be fitted with the revised distribution policy.

Overheads on promotional activities

4.20. It has been represented before the Committee that the SSICs are incurring huge losses on activities other than distribution of raw material. Therefore, by this move to channelise distribution of all raw materials through them, the Corporations aim at improving their profitability at the cost of SS units. If SSICs are to be the main agencies for distribution of raw materials, they should be re-structured to streamline their distribution mechanism. It has been suggested in this connection that the SSICs should have separate account for procurement and distribution of raw materials for SS industries and should not mix it up with their overheads on other activities.

4.21. The Ministry have stated that the Small Industry Corporations do have a number of other activities which are promotional in nature besides the distribution of raw materials which is largely commercial. Since the accounts of the Corporation are maintained in a consolidated form, it is difficult to substantiate the view that the profits made on the commercial operations are being used to maintain the promotional activities of the Corporation. However, the Small Industry Corporations have been advised to undertake even the distribution of materials on a no-profit and no-loss basis rather than to look for profits out of such activities. In fact, most Corporations complain that the distribution of raw materials does not break even, much less profit as is feared by the small scale units. There is perhaps, need for a greater measure of managerial efficiency which would enable the commercial operations involved in the distribution of raw materials to be done in a more efficient manner.

4.22. Asked if the Small Industry Corporations were selling their raw material to Small Scale Units on a no-profit no-loss basis as advised by the Ministry the Development Commissioner SSI stated:

“Our understanding is that the Small Industries Corporations have accepted the principle. I do not put it as no-profit no-loss, but on a Small marginal profit to keep the Corporations going.”

Shortage of Funds

4.23. It was brought to the Committee's notice that the State Small Scale Industries Development Corporations invariably suffer from lack of funds and are, therefore, unable to maintain buffer stocks of raw material.

4.24. The Ministry have stated that there is some validity in the criticism that many small Industry Corporations do suffer from paucity of funds as provided by the State Governments. This is, however, linked up with the allocation made in the plans of the State Government and their inability to provide a certain proportion to the development of small industry and in particular to the Small Industry Corporation of the State.

The Ministry are, however, of the view that it is not necessary that Small Industry Corporation need entirely rely on Government finances. It should be possible for them to use the money obtained from the Government as margin money to obtain a much greater volume of credit from commercial banks. However, in most States the Small Industry Corporations do not seem to have acquired the necessary expertise to conduct such an operation of using the Government finance as margin money for credit from the banks.

4.25. When asked if Government of India has advised the SIDCs on the lines suggested above to overcome the apucity of funds, Secretary (Industry) stated during evidence that the Small Industries Corporations had been registered under Indian Companies Act in different States. It would be difficult for the Government of India to advise the Small Industries Corporations as to in what manner they should regulate their funds. He, however, assured the Committee that in cases where the Corporations were suffering from paucity of funds action would be taken by the Government of India to augment the funds on the Corporations.

4.26. When asked if in order to tide over the constraint of funds, the Ministry had emphasised on the SIDCs/State Governments to induct necessary expertise into the Corporations of those States where such expertise was lacking, Secretary (Industry) stated that in his personal view the inability of the State Small Industries Corporation to rotate the funds in order to achieve greater volume of trade was not due to lack of expertise. He stated that this was due to the fact that most of the Small Industries Corporations had confined themselves to distributing only iron and steel items. They had not in fact gone into trade of marketing in a big way. As and when they take up the distribution function of different materials in a big way, they would certainly need more funds and at that stage it should be possible for them to have such banking arrangements as are necessary. It has been possible in some States like Gujarat to rotate their funds in a big way.

4.27. Elaborating his views on the level of financial expertise in the Corporations, the witness stated that "the question is that the context of expertise arises in the framework of the activities in which you are engaged. If you are engaged in trade activity in a big way, you get an expertise in terms of marketing as well as financial management. The fact that there is no expertise is not a fact of dispute. What I am trying to explain is that because the trade activities today are limited, the expertise has not grown."

4.28. In this connection, Secretary (Industry) expressed the view that, when the Small Industries Development Corporations borrow from the Commercial Banks, they should be allowed a preferential rate of interest as was available to the small units themselves.

Supply of Materials on Cash Payment

4.29. The Committee have been given to understand that the Maharashtra SS Industries Corporation does not insist on cash payment for the raw materials supplied by it to SS Industries. This Corporation allows the small units a period of ten days for making payment. Asked to state the procedure followed in other States, the Ministry stated that it is true that some of the Corporations who have gathered considerable experience in regard to the distribution of raw materials in States like Maharashtra, Gujarat, Karnataka, Tamil Nadu, etc., are more flexible in the matter of making financial arrangement with the Small Industry. However, in others there is a system of Earnest Money or full deposit of the sale value of the material before physical deliveries are made.

4.30. The feasibility of extending similar system as followed by Maharashtra throughout the country, though desirable, would depend on the managerial efficiency of the Small Industries Corporations as well as their financial ratings.

4.31. When asked if the Ministry had made any efforts to persuade the SIDCs not to insist on full payment of the sale value of the raw materials before making physical deliveries as was the case in Maharashtra etc., Secretary, Industry, stated during evidence that while Maharashtra was giving ten days credit the system generally being followed was full payment on delivery. Since most SIDCs had to make full payment before they got the material and their cost of credit from the banks was 18 per cent, therefore, they were finding it rather difficult to deliver materials without full payment. He stated that if it could be accepted in principle that small scale industries cooperations would be able to borrow from

the banks at a preferential rate of interest as admissible to the small units, in that event, it should be possible for the Small Industries Corporations to extend some credit to the small industrial units and not to insist on full payment.

Chief Executives of Corporations

4.32. It has been suggested to the Committee that a non-official professional rather than bureaucrat should head a State Small Industries Corporation

4.33. The Ministry have informed the Committee that in many States, the Chairmen of the Corporations are drawn from the public while the purely executive functions are handled by officials. Hence the present position is a blend of both the non-official and official elements.

4.34. What the Ministry however, consider more important is that a Chief Executive once appointed by the State Government, should not be disturbed frequently which makes it difficult for any person to understand fully the complexities of the job. Unfortunately, in some States, the tenure of a Chief Executive rarely exceeds a few months.

4.35. The Ministry have admitted that in some of the States due to frequent changes of Chief executives, inadequate financial resources, their own general inability to raise further finance from the banks, the State Small Industry Corporations have not been able to function effectively. The Ministry have also admitted that despite the Ministry's advice not to levy extra charges, the small Industry Corporations still continue to levy certain charges over and above the permitted service charges from Small Scale Units. Secretary (Industry) explained in evidence that extra charges were in the nature of additional transport charges for carrying the raw materials from the point of receiving deliveries from suppliers to the points of distribution to small scale units and it was therefore, not correct to hold the additional transport charges as 'profit'. The Corporations, it is stated, are not selling material at no-profit no-loss basis as they are required to sell but they are charging a "small marginal profit to keep the Corporations going".

4.36. From this the Committee cannot but conclude that all is not well with the Small Industries Development Corporations and, no wonder, the small scale units are dissatisfied with their working.

The Committee, however, feel that a study into the working of the Small Industry Corporations should be undertaken expeditiously especially in the field of distribution of raw materials, price structure and the margin of profits they are authorised to charge and they actually charge from the small scale units in order to determine whether these Corporations, which are the agencies of the Central Government Organisations in these fields are discharging their functions efficiently and within the four corners of the guidelines issued by the Central Government Organisations. Unless such a study is made the Central Government would not be able to appreciate fully the drawbacks in the working of their agencies in the States and would therefore not be able to take corrective action which the Central Government are under obligation to take in the interest of small scale units. (Sl. No. 34)

4.37. The Committee would like that, pending the aforesaid study, the controversy about the corporations' right to recover additional transportation charges from the point of receiving supplies to the point of delivery and the quantum of such additional charges should be resolved and clarification published not only for the guidance of the SIDCs but also for the information of small scale units. (Sl. No. 35)

4.38. The Committee find that the Small Industry Corporations find the existing level of service charges inadequate to meet the cost of overheads in handling of raw materials distributed through them. This matter, it is stated, is under the consideration of the Ministry of Steel. The Committee would expect a decision in the matter to be taken expeditiously. (Sl. No. 36)

4.39. The Committee are informed that Small Industry Corporations, are performing a number of promotional activities besides the distribution of raw materials which is largely commercial. A general feeling prevails among small scale units that these corporations are incurring losses on promotional activities and the Central Government's move to channelise the distribution of all raw materials through them is intended to improve their profitability at the cost of small scale units.

4.40. The Committee feel that it would be unfair to small scale units if the overhead expenditure on the promotional activities of the corporations is passed on to raw material supplies which the small scale units are obliged to buy from the corporations. The Committee would like the Ministry to make sure that this does not happen. (Sl. No. 37)

4.41. It has been admitted by the Ministry that Small Industry Corporations do suffer from paucity of funds to some extent and in most States the Small Industry Corporations do not seem to have acquired the necessary expertise to use Government funds as margin money to raise credit from commercial banks. The Committee are surprised at the stand taken by the Ministry of Industry that it would be difficult for the Government of India to advise the Small Industry Corporations as to the manner of regulating their funds because they are State bodies registered under Companies Act but they would be prepared to take action to augment the funds of the Corporations which are suffering from paucity of funds. In the Committee's view it is too legalistic a view. The Committee would suggest that while providing funds to the SIDCs the Ministry of Industry have every right to advise them about the steps necessary to improve the management of their funds including the need to induct better financial and managerial expertise into the Corporations. The Committee recommend that this should be done. (Sl. No. 38)

4.42. The Committee are unhappy to note that the Ministry have not spoken with one voice before the Committee on certain issues thus making it difficult for them to have a correct appreciation of the problems. While in a written reply, the Committee were informed that the Ministry have advised the SIDCs not to levy extra charges for raw materials over and above those permitted by canalising agencies, Secretary (Industry) stated during evidence that "if they have been advised (on these lines), they have been wrongly advised". Again, while according to the Ministry, in most States, SIDCs do not seem to have acquired the necessary expertise to raise credit from commercial banks on the strength of Government finances, Secretary (Industry) stated in evidence that the inability of the SIDCs to rotate their funds, in order to achieve greater volume of trade was not due to lack of expertise; this was due to limited range of their marketing. Divergence of views on any subject within a Ministry is neither unusual nor in any way bad; what is unusual in this case is that the different views were not harmonised within the Ministry before placing them before the Committee. This shows lack of coordination and cohesion within the Ministry which is unfortunate.

4.43. The Committee find that the financial position of the Small Industry Corporations could improve and they could also provide a few day's credit to the small scale units on the sale of raw

materials as is being done by the Corporations in States like Maharashtra, Gujarat, Karnataka and Tamil Nadu if these Corporations could borrow funds from the Commercial Banks at the same preferential rate of interest as is charged from the small scale units. The Committee strongly recommend that the Small Industry Development Corporations should be treated at par with the small scale units in the matter of rate of interest on funds advanced by the banks. The Committee would like this matter to be taken up by the Ministry of Industry with the Ministry of Finance. (S. No. 40)

4.44. It is unfortunate that in some States tenure of chief executives of the Small Industry Development Corporations rarely exceeds a few months. The Ministry of Industry would do well to bring the harmful effect of such frequent changes in the top management of the corporations to the notice of the States concerned. (S. No. 41)

C. Misuse of Raw Materials

4.45. It has been represented to the Committee that in case of certain raw materials like coal, iron and steel etc. the small scale units depend on open market. They get only 30—40 per cent of their requirements through official channels. These raw materials are stated to be available in open market at a premium but not through official channels. It has been further represented that scarcity exists only for SS units.

4.46. It has been brought to the notice of the Committee that large as well as small scale units sell scarce raw materials in open market when what they get through official channels is not of right or matching specifications or when it is surplus to their requirement or when they do not get it in time or in adequate quantity to run their units at economic level. The Ministry have stated that Government are aware of the fact that certain amount of controlled raw materials are available in the open market. While some of the material comes from units both large and small, it need to be remembered that official sources are not the only recognised ones for procuring material. REP licence holders are empowered to sell according to the current policy. In the case of Steel, besides the dealers, mini steel plants and re-rolling units are also authorised to sell. Thus in the view of the Ministry the existence of an open market supply need not necessarily be considered as outside the pale of law.

4.47. The Ministry have further stated that it is known that both large and small scale units tend to offload in the open market supplies received by them which they themselves cannot use. This can be checked only if canalising agencies are able to ensure that the units receive raw materials to the exact requirement and in time which, as present, seems to be difficult. It is, therefore, considered that unless the general availability of raw materials reaches a more satisfactory level, the present situation will continue.

4.48. The Committee enquired as to what was the advantage of calling an item "controlled" if the manufacture of such an item whether in the public sector or private sector had not to conform to certain guidelines for its sale. The Secretary (Industry) explained that the idea had not so far been to control the entire gamut of production either of intermediates or primary products of a particular industry. The area had been to resort to partial distribution control and that was being done. He stated that the products of mini steel producers did not come within the ambit of distribution control. Actual users could also import against REP licences. Rerollable scrap was also available in the open market.

4.49. Secretary (Industry) added that this did not mean that there was no leakage and for this there were powers available to the controlling authorities to take action against those who disposed of their material available in the open market.

4.50. In this connections, the Secretary (Industry) added that all steps are being taken to increase production of critical materials. The situation was turning for the better and would turn for the better in the next three to six months.

4.51. It has been stated in a memorandum that there are mal-practices in the use of scarce raw materials which must be with the connivance of the Directorates/or the authorities concerned. It has been stated that the Inspectors help the units to get the material even though they may not be existing. Probably this is the reason for the mal-practices in the use of scarce raw materials.

4.52. The Ministry have stated that there have been complaints regarding the malpractices prevailing in the distribution of material. Whenever such complaints are received, proper action is taken by the agencies both at the Centre and States. Periodic inspections made by these agencies help to weed out bogus units and hence malpractices.

4.53. The Ministry of Industry have added that complaints against mal-practices in the use of scarce raw material can be enquired into only in respect of such raw materials as are subjected to distribution control. In regard to Iron & Steel for instance, complaints were stated to have been received in regard to mal-practices and the Iron & Steel Controller had conducted 4189 inspections of units both in large and small scale sector in the year 1979-80. As a result of the inspections 633 units were suspended and 365 were debarred from receiving further raw material. No separate figures are readily available for the small scale units alone.

4.54. Asked if there was any law to prevent and punish misuse of scarce raw material and whether it was adequate to check the malpractices reported in this regard the Ministry have stated that at present Iron and Steel, Aluminium (EC) and Cement are the important scarce raw materials which are under the purview of the Essential Commodities Act. Under the powers vested with the Iron & Steel Controller and the Aluminium Controller, it is possible within the law to prevent and punish the units who are engaged in the misuse of material.

4.55. So far as the materials which are under the Essential Commodities Act are concerned, the provisions of the Act are stated to be quite sufficient; but in the case of materials where distribution is not controlled under any Act, it has been stated that the malpractices which do exist, can hardly be stopped under the present circumstances of shortages.

4.56. The Ministry have added that the relevance of legal provisions to prevent mal-practices and misuse of raw material would arise only where there is distribution control imposed in public interest. In such cases, the E.C. Act provides adequate legal cover. There are also separate control orders. The Ministry have stated that it may be difficult, to provide legal provisions for all raw materials which become scarce from time to time.

4.57. When asked if it was not a serious matter that in case of certain raw materials like coal, iron and steel etc. the small scale units depended on open market, that they were getting only 30—40 per cent of their requirements through official channels and the raw material should be available in open market at a premium and not through official channels, the Secretary, (Industry) agreed that it was a serious matter. He stated that this problem would solve itself as soon as production was increased. He expressed the view based on his experience that with marginal increase in production the shortages disappear.

4.58. The following statement has been furnished by Ministry showing the number of debarments effected by the Regional Iron & Steel Controller during 1978-79 & 1979-80. The figure includes both large and small scale industries. No separate figures for small scale is stated to be readily available.

Region	No. of Debarment Cases		
	1978-79	1979-80	April-Nov. '80
Calcutta	4	28	52
Delhi	43	110	85
Bombay	5	32	38
Madras	19	152	108
Hyderabad	90	26	99
Kanpur	12	17	38
TOTAL	173	365	420

Notifying capacities and allocations

4.59. It has been represented to the Committee that capacities and distribution of materials to SSI units are not being monitored and are not known to the public. It has been suggested, therefore, that both capacity assessment and deliveries should be made public and notified as in the case of import licence. If that is done, the public at large will know wherefrom the material comes to the open market.

4.60. Indicating their reaction to this suggestion the Ministry of Industry have stated that the recommendation that assessment and delivery should be made public, has been made in many forums including the SSI Board. The State Directors of Industries have also been advised to follow the procedure of giving wide publicity to the allocation and assessment made by them in respect of individual units. In the case of EC grade aluminium where the aluminium controller makes the allocation, these are made public and copies of the allocations are made available to all the Associations, individual units and the State authorities concerned.

4.61. When asked if the assessments and deliveries made to SS Units were notified to the representative associations of SS Industries and if not, whether the Ministry had any objection to do so,

the Ministry stated that "Some State Small Industries Corporations have introduced the system of intimating representative associations of small scale industries about the receipt and allocations of critical raw material. Some of them display it on their Notice Boards. Ministry see no objection in recommending to State Governments that the distributing agencies in the States should notify suitably for general information receipts and allocations of scarce materials being distributed through such agencies."

4.62. With a view to streamlining the distribution of scarce raw materials to small scale units it has been suggested to the Committee that a procedure should be established, under which (i) the arrival of specific materials (ii) total quantities available and (iii) prices are announced on a Board in the office of Public Sector Corporations for all prospective allottees to see, and allocations are made only in accordance with the order of registration/demand of each allottee, and no out of turn allocations are permitted.

4.63. It has been stated by the Ministry in reply that the suggestion of making known to prospective indentors of the arrival of each product in the stockyards and godowns of the canalising agencies is useful one. In fact, Small Industries Corporations have also been advised to follow a similar procedure to make publically known the amount received by them and the allocation made to the individual units. It has also been suggested that the fact of such allocation should be intimated to the District Industries Centres who may be in a better position to monitor the use of the material.

4.64. The Ministry have stated further that in most States, it is the State Directors of Industries who issue the release order for implementation by the State Corporation. In doing so, he would take into account the various factors such as capacity of the unit, its past off-take etc. While it is advisable to make such release on the basis of the requirement of each allottee, it may be necessary at times to make out-of-turn allotment, keeping in mind the time factor in fulfilling time-bound commitments. The Ministry are of the view that the procedure, therefore, may continue in allowing a certain measure of discretion to the State Director of Industries in optimising the effectiveness of the limited quantities of raw materials which have been received in the State.

Malpractices in issue of permits in manufacturing units.

4.65. It has been represented to the Committee that the despatch clerks working in the offices of raw material manufacturing units (SAIL, TISCO, etc.) send delivery permits to wrong parties

who collect the raw material quotas and sell them in open market in collusion with despatch clerks. Further that permits are issued by these manufacturers on paper but are not despatched and the genuine units thus suffer. It has been suggested that to stop these malpractices, delivery orders should be despatched by post-registered A. D.

4.66. The Ministry have stated that there may be some instances where the sale note or the permits are intentionally diverted to non-users. Such instances whenever brought to notice of the controller of Iron & Steel/producers, proper investigation are carried out. The Ministry have no objection in sending permits by registered post, though they doubt whether such a step would be adequate to stop all malpractices.

The Ministry have added that they will consider taking up the matter with the producers/allocating agencies of raw-material. However, it is likely that such a procedure would involve delays in the receipt of such permits by the allottees.

'Bogus' Units.

4.67 The Committee were informed during the tour that in a survey of SS units conducted in 1974-75, 40—60 per cent of the units were found bogus. It was represented that no steps were taken to deregister the bogus units which continued to get quotas and certificates from State authorities. It was pointed out that large units sell raw materials in open market or exchange raw materials when what they get is not of right specifications. The Iron and Steel Controller should not force wrong king of raw materials on large units which they cannot use and have to sell in open market.

4.68. The Committee wanted to know whether any survey of SS units had been made at State level or Central level and if so, when the last survey was made, what were the findings and what action was taken against them.

4.69 During evidence (Jan., 1981) Secretary (Industry) stated that we might not be unduly disturbed over the problem of bogus units. In 1973-74 when survey was made their number was 2 per cent of the total registered units. He stated that there was a tendency to feel that a large percentage of small scale units were bogus but that was not so. Small scale development in India was by far the most significant development in economic field and, therefore, even if some units had been found bogus and to have been given allocation, now they had all been weeded out and were not being given allocation .

4.70. In a note furnished to the Committee after evidence the Ministry have stated (March, 1981) "The censuses conducted during 1973-74 revealed that 11 per cent of the units were then non-existent. In addition, 24 per cent were found to be closed for one reason or the other. The census was conducted by DCSSI through State Directors of Industries according to a schedule formulated by the DCSSI who also monitored the census.

4.71. No information is readily available with Ministry as to the number of reviews done at the State level subsequent to the census.

4.72. No frequency has been stipulated for reviews to be conducted at the State level."

4.73. The Committee are surprised to learn that critical and controlled raw materials like iron and steel are available in the open market at a premium but not so through official channels to meet the needs of SS units. The Ministry are aware of this phenomenon which, they say, is inherent in a scheme of partial distribution control system, as in vogue at present. At the Ministry's view the problems will solve themselves as soon as production increases for which they say they are taking all possible measures. While the committee agree that adequate production and timely supply of scarce raw materials of the required specifications are doubtless the ultimate solution to the problem of unauthorised sale of controlled materials in the open market by both large and small scale units, they are unable to reconcile with the position taken by the Ministry that the Government is helpless to stop malpractices in respect of raw materials whose distribution is not under any statutory control.

(Sl. No. 44)

4.74. The Committee think the Government should not remain a silent spectator when scarcity conditions in critical raw materials are exploited by unscrupulous elements to the detriment of genuine small scale units. The Committee feel that Government should act to regulate distribution and use of those raw materials which are of critical importance to SS units and generally in short supply.

(Sl. No. 43)

4.75. The Committee are concerned at the sharp increase in the number of proven cases of malpractices in the use of iron and steel material resulting in debarment of the allottees from 173 in 1978-79 to 365 in 1979-80 and to 420 in the first 8 months of 1980-81. The Committee would like inspections to detect misuse of all kinds of critical raw materials—not merely iron and steel—to be intensified with a view to taking deterrent action in proven cases of malpractices.

(Sl. No. 44)

4.76. The Committee recommend the following additional measures to be taken in order to minimise the misuse of critical raw materials:—

- (i) Both capacity assessments and deliveries of raw materials should be made public and notified as in the case of import licences and copies of these notifications should be made available to the representative associations, individual units and the State authorities concerned.

(Sl. No. 45)

- (ii) A procedure should be established under which arrival of specific materials, in stockyards and godowns of canalising agencies, total quantities available from day to day prices of materials should be displayed on the notice boards outside the offices of the agencies, producers concerned, State Directors of Industries, District Industries Centres and Small Industries Development Corporations.

(Sl. No. 46)

- (iii) Where sale notes and delivery permits are to be issued by the producers and distributors to allottee units, these should be despatched to the allottees by post Registered A.D. or as may otherwise be specifically desired by the allottees. The preference of the applicants in this regard should be ascertained beforehand.

(Sl. No. 47)

4.77. The Committee were assured during evidence that the number of bogus units was not large; it was stated to be only 2 per cent according to a survey made in 1973-74. The Committee were surprised to be informed by the Ministry after the evidence that their number was not as insignificant as they were told in the evidence. The fact was that according to the 1973-74 survey, 11 per cent of the units were found non-existent and 24 per cent were found closed; thus as many as 35 per cent of SS units were, what in common parlance is called, "bogus" units on the books of the authorities for drawing raw materials.

4.78. From the two sets of figures given by the Ministry, the Committee cannot help entertaining a feeling that the Ministry do not seem to be viewing the problems of 'bogus' units as seriously as they should.

(Sl. No. 48)

4.79. This was the position obtaining in 1973-74 i.e. seven years ago. The Committee feel that a fresh survey is now overdue and should be taken up to find out the magnitude of this problems as

it prevails today, as only then can they take more effective measures to protect the interests of genuine small scale units.

(Sl. No. 49)

4.80. The Committee expect that besides any other action that may be warranted under the existing rules and practices the authorities at the Centre and the States, should be advised by the Ministry to debar 'bogus' units from receiving critical raw materials through official agencies and they should be black-listed.

(Sl. No. 50)

D. Registration of SS Units

4.81. The Ministry have stated (WR 36) that the suggestion that there should be a compulsory registration of small units by the States is currently under the consideration of the Government. The practice at present is that it is not necessary for a unit to get registered with the State Directors of Industries so long as it does not require any support from the Government but no raw material is supplied through internal channels to any unit which is not registered with the State Director of Industries.

4.82. It has been suggested to the Committee that small scale units should be required to get themselves registered compulsorily with the State authority if loopholes and bogus units have to be checked.

4.83. Secretary (Industry) stated during evidence that compulsory registration would require compulsory production return and in that event, it would bring small industries into a legislative frame of regulation. The question was:

"Is it in the interest of the growth of the small industries in the overall perspective to bring them within a regulatory frame or is it in the interest of the small industries themselves that they should be as far away from the form filling obligations of any Governmental control? So, as far as I am concerned I personally have not been able to arrive at a categorical view what indeed is in the interest of the small industries. If you would look at it, the rate of growth in the small industries in terms of production, etc. has been very much high than the rate of growth in the so-called I.D.R. Sector or organised sector. Would you like that we make them to take some initiative in the form filling obligations of Governmental

control or would you like that they should be encompassed of some statutory frame? My personal tentative view even at the stage is that it may be in the interest of the small industries to leave them free for a little while longer”.

4.84. Expressing his personal tentative view, at this stage, Secretary (Industry) stated that it may be in the interest of the small industries to leave them free for a little while longer.

4.85. The Committee take note of the suggestion regarding compulsory registration of small scale units. The Committee also take note of the ‘personal tentative’ views of Secretary (Industry) that it will be in the interest of small scale industries not to have ‘compulsory’ registration for some more time. The Committee, however, cannot help observing that even though ‘optional’ registration entitles the small scale units to get assured supplies of raw materials at ‘controlled’ rates which is not a small thing, even then a large number of the units do not come to register themselves with State agencies. It should be worthwhile to study this phenomenon.

(Sl. No. 51)

E. Need for a Nodal Agency and Pole of D.C. (SSI)

4.86. It has been stated in a Memorandum furnished to the Committee by a State Government that from time to time, the State Government has been taking up the problems regarding allocation and transportation of raw-materials with different Central Government agencies at various levels. However, experience shows that such efforts do not yield desired results because there is no focal point in Govt. of India which would take an overall view of the problems and co-ordinate the working of these agencies. The State Government has therefore, proposed that a nodal agency may be nominated by Govt. of India to deal with the problems of supply of raw materials to SSI Units. This nodal agency could perform the following functions:—

1. to monitor the determination of quotas of critical raw-materials to different states taking into consideration the minimum needs of small scale industrial units in the States.
2. to monitor supply and movement of the allocated raw materials to the respective States and
3. to liaise between the Central Govt. agencies and the State Governments.

4.87. It has been stated by the State Government that since this nodal agency will be dealing with the problems of small scale units, it would be logical to expect D.C. (SSI) * to head this Cell in the Govt. of India. But we wonder whether D.C. (SSI) would be able to effectively perform the functions of a nodal agency in as much as his word may not carry enough weight with the Central Govt. agencies which are under the administrative control of Ministries other than Industry. It is, therefore, for consideration whether this Cell could be constituted either in the Prime Minister's Secretariat or in the Cabinet Secretariat. The representatives from the Ministries of Coal and Mines and Railways would have to be necessarily made the members of this Cell. The representatives of other agencies like Director of Rail Movement, Bharat Coking Coal Ltd., SALE, Iron and Steel Controller, etc. should be invited to attend the meetings of this Cell. This nodal agency should have a constant dialogue with the State Govts. and may hold periodical meetings with the State Directorate of Industries to discuss their problems.

4.88. It has been further stated in the memorandum that as on today, State Directorate has to take industrial problems to the various agencies. For example, for steel, it is necessary to approach the Steel Authority of India Ltd., the Director, Movement (Railway) for coal and coke and Ministry for Petroleum for furnace oil etc. It is suggested that the nodal agency as suggested above, may be formed in such a way that it could be possible for the Directorate to put-forth all the problems at one point and it would be within the competence of this agency to take a final decision which would have acceptance at the concerned levels.

4.89. It has been stated by the Ministry of Industry that the Development Commissioner acts as a coordinating agency at the Central level to assess the requirements of individual States for critical raw materials and also to interact with the administrative Ministry concerned and to intervene on their behalf with the canalising agencies in respect of specific problems of any individual units. It has been stated that whenever there is a complaint from a particular State in regard to non-receipt of the material, the Development Commissioner does take up the matter with the Ministry and the agency concerned. However, the Development Commissioner does not have the final voice in this regard.

*Development Commissioner, Small Scale Industries.

4.90. A number of Ministries and agencies are necessarily involved in obtaining and distributing raw materials to the small scale units. At the Central level, it is the administrative Ministries who, taking into account the indigenous production of material, will have to make the assessment of the amount of materials for import to supplement the indigenous production. In making this assessment, the Development Commissioner, Small Scale Industries, provides the inputs received from the State agencies. Again, the Development Commissioner, Small Scale Industries is a member of the pricing Committee to regulate supplies through the Canalising agencies. In addition, he keeps in close touch with the State Directors of Industries as well as the State Small Industries Corporations. The Ministry of Industry are thus of the view that although DC(SS)I may not be regarded as a 'nodal' agency, the Development Commissioner does play a useful coordinating role in the matter of distributing raw materials to the small scale units.

4.91. It has been also suggested to the Committee that:—

1. A separate Department or Division should be established in each of the Central Government organisations to exclusively look after the supply of raw material from that organisation to small scale industries, whether supplying directly to small scale industrial units or through the SSIDCs.
2. Coordination Committee comprising of all the concerned Government organisations and authorities involved in the supply and distribution of each raw material, should be formed at the Central, State and District levels. In the case of iron and steel in particular, such committees should be set up at each of the SAIL stockyards.

4.92. The Ministry have stated that the present position is that in each Ministry, an officer not below the rank of a Joint Secretary is personally involved in the distribution of raw materials to the small scale sector. He determines the operations of the canalising agency which is under the administrative control of his Ministry and acts as a nodal point in the Ministry to monitor its implementation. The Ministry of Industry, therefore do not consider it necessary at this stage to think of a separate cell in each Ministry to look after this work. It has been stated that the Development Commissioner keeps in close touch with the concerned officers in each administrative Ministry who deal with this matter.

4.93. However, the Ministry have added that the inter-action of the Development Commissioner with some of the Ministries such as the Railways is somewhat limited and not quite effective. It may be useful if an Inter-ministerial official level committee is set up, which would highlight problem of the distribution of raw materials in its total perspective. It would include the problems of production of raw materials by the indigenous sources, as well as the transport bottlenecks of the raw materials and the problem of the distributing agencies. The Committee chaired by Secretary Industry could include representatives of the Ministry of Steel, Commerce, Energy, Chemicals, Railways besides agencies such as CCI&E, STC, MTC, SSIC's, DCSSI etc. Such a committee could then take an over-view of the problem and provide guidance to individual Ministries in regard to the steps to be taken, so that Raw material distribution to the small scale sector is not adversely affected by various factors.

Office of Development Commissioner, Small Scale Industries.

4.94. It has been represented to the Committee that the Office of Development Commissioner of SSIs is not an effective body and that the Industry has been saying so for two decades. It is, at present only a wing of the Ministry. It cannot provide protection to the small scale sector nor is it answerable to the industry. Commenting on this observation, the Ministry have stated that the Development Commissioner's Office is primarily set up for assisting small scale industry in their technical, managerial and economic fields. This office functions primarily as a coordinating body in between State Governments and the Central Ministries in so far as the distribution of raw materials is concerned. The interests of the small sector are looked after by the Development Commissioner by inter-acting with the concerned Ministries both for the formulation of policies and in their implementation. Since the office of the DC(SS) is attached to the Ministry of Industry, it is primarily a Govt. agency meant to help the industry but not answerable to it.

4.95. The Committee enquired whether any study had been made to assess and evaluate the role, utility and achievements of the office of Development Commissioner (SSI).

4.96. The Ministry have stated that studies have been made to assess the role of Small Industry Development Organisation. However, no study is stated to have been made specifically in regard to

the role of D.C. (SSI) as the coordinator in the distribution of raw material.

4.97. When asked as to why the interaction of the Development Commissioner with the Ministries like Railways was limited and not quite effective and whether other Ministries too had not responded to the initiatives taken by the Development Commissioner, the Ministry stated that "as a nodal agency for promotion of the small scale sector, the views and recommendations of the DCSSI are always given due consideration by the Ministries responsible for production, allocation and distribution of raw materials used by the small scale sector. Through this inter-action with such Ministries, DSCCI has built up a good working relationship. His inter-action with the Ministry of Railways is limited to sorting out problems of movement, wagon availability, etc. Whenever DC has difficulties with allocating Ministries he takes up the matter through the Ministry of Industry who follow up the issue through established procedures for Inter-Ministerial consultations."

4.98. A State Government has brought to the Committee's notice that they have to take up the problems of SS Sector regarding allocation and transportation of raw materials with different Central Government agencies at various levels and there is no nodal agency at the centre which can take an overall view of the problems and co-ordinate the working of these agencies. The State Government do not think DC(SSI) can act as the nodal agency as "his word may not carry enough weight." . . .

4.99. The Ministry of Industry have also stated that the DC(SSI) may not be regarded as the nodal agency although he does play a useful coordinating role. The Ministry have conceded that, though DC(SSI) intervene with the canalising agencies in respect of the specific problems of SS Units, he "does not have the final voice in this regard" and that the inter-action of the Development Commissioner with some of the Ministries such as the Railways is "somewhat limited and not quite effective." Small Scale Sector also considers the office of DC(SSI) as "not an effective body." From all this, the Committee are constrained to conclude that the office of DC(SSI) has failed to fulfil the role expected of it by Small Scale Sector and State agencies. (S. No. 52)

4.100. The Committee would like that the role and powers of DC(SSI) should be reviewed with a view to making him the principal and potent instrument to be able to effectively intervene with

the Departments and canalising agencies of Central Government on behalf of the State and Small Scale units and solve their problems.

(S. No. 53)

4.101. The Committee would also like that structure and working system of the office of DC(SSl) should be studied in depth by management experts with a view to making it a live and result-oriented organisation capable of serving the Small Scale Sector efficiently and winning the confidence of State agencies and small units all over the country.

(S. No. 54)

4.102. The Committee cannot appreciate how the office of DC(SSl) can be said to be performing a "useful coordinating role" if the State agencies charged with the responsibility of looking after the interests of Small Scale Sector in various States have themselves to go round the country knocking at the doors of Central agencies, one after the other, in search of raw materials and solutions to their problems. The Committee strongly feel the need of an inter-ministerial executive body at the Centre as suggested by the State Government and conceded by the Ministry of Industry, to act as a nodal agency with an effective voice in matters concerning production, import, allocation and transportation of raw materials, whom alone the State agencies may have to approach with the problems of Small Scale Sector for an effective solution. The Committee would suggest that a nodal agency on these lines should be set up at the Centre at the earliest.

(S. No. 55)

CHAPTER V

MARKETING ORGANISATION

5.1. There are a number of organisations engaged in providing assistance and guidance to small scale industries in the field of marketing. The main organisations at the Central and State levels include:

- i) Small Industries Development Organisations (SIDO) with its net-work of SISIs, Branch Institutes and Extension Centres as well as the Regional Testing Centres;
- ii) National Small Industries Corporation and its branches;
- iii) The State Directorates of Industries;
- iv) State Small Scale Industries Corporations;
- v) District Industries Centres.

5.2. Apart from the above mentioned organisations, a number of other organisations like Trade Development Authority, Indian Institute of Foreign Trade and Export Promotion Councils render assistance to small industries in the field of export marketing. The facilities provided by them are, however, available to small as well as large scale units.

5.3. Although SIDO has been actively connected with programmes like ancillary development to provide marketing outlets for small industries products, in 1976 a separate division was set-up in the Office of the Development Commissioner, Small Scale Industries, to deal with the Marketing problems of the small scale units including those relating to the Central Government Purchase Programme.

A. Marketing information network

5.4. It has been stated in a memorandum to the Committee that most of the Small Scale Units, particularly in the engineering sector, have grown on a basis whereby they have no means of access to organised market information. It is therefore, essential that both at the Central and State levels, adequate facilities are established not only to obtain information about products in demand, or likely to be demanded, but also of their engineering specifications.

5.5. It has also been represented that the present market information net-work is outdated and of very limited utility. Market studies and the information provided by SISI, are mostly outdated and of very marginal utility.

5.6. The Ministry have stated that on the basis of various techno-economic studies undertaken by Small Industries Service Institutes, **small entrepreneurs are provided guidance from the stage of conception of the product to its actual marketing.** Small Industries Service Institutes also organise a number of courses in the field of Industrial Management, Marketing Management and Export Marketing. The various training programmes undertaken by these Institutes are evaluated from time to time especially when the annual programme of work for the Institute is prepared. However, it is undeniable that the marketing 'expertise' within the organisation is somewhat limited as the thrust of the organisation and of the programmes has been on technical subjects.

5.7. Regarding the utility of the existing net-work for marketing information it has been stated by the Ministry that while it is not correct to say that the present marketing network is outdated and has very limited utility, at the same time there is need for continuously updating the information and establish a system by which **the information may be disseminated among small entrepreneurs in the shortest possible time.** The strengthening of Data Bank and establishment of sub-contracting Exchanges in different Small Industries Service Institutes are aimed at achieving this objective.

5.8 The Committee have been informed that during the Sixth Five Year Plan, it is proposed to further strengthen the programmes for providing assistance to small scale industries by strengthening the existing arrangements to disseminate economic and other related information to small entrepreneurs. It is also proposed to further intensify the various training programmes already being undertaken and introduce some other specialised programmes in the field of marketing including export marketing.

5.9. During evidence, Secretary (Industry) stated that the **marketing wings of the SISIs in different States were being strengthened.** At present, SISIs are not doing market surveys or costing on scientific basis. Secretary added that SISIs were supposed to give full information with regard to the charges, documentary evidence about investment and equipment and market study at the State level.

B. Marketing Federation

5.10. The following suggestions regarding organising a marketing agency at the Central level have been made to the Committee by representatives of non-official organisations:—

- (a) A Central Marketing Organisation, a federation of similar organisations at the State level with a net-work all over the country for purchasing and marketing the products of small-scale industries should be set up.
- (b) A national marketing federation with sales establishments in each State should be set up to provide marketing intelligence and service and chain departmental stores, on American lines to provide guidance in production techniques, financial support, raw material and an assured off-take of finished products as recommended by the Administrative Reforms Commission.
- (c) Separate marketing organisations be created for different groups of products like Electronics, Chemicals, Engineering, Pesticides and Consumable items, etc. headed by programme. Each Corporation will associate different units under its umbrella, providing them with technical know-how, quality control and Research and Development facilities etc., and brand name and having sales out-lets in different parts of the country.

5.11. Commenting on the above suggestions the Ministry of Industry have stated that the National Small Industries Corporation at the Cenral level and State Small Scale Indusries Corporations at the State level already undertake programmes of marketing assistance to small scale industries. In addition, in some specialised areas like Leather, Electronics, etc., there are agencies like the Bharat Leather Corporation, ETTDC, to help small units to market their products. The Ministry are, therefore, of the view that a separate Marketing Organisation at the Centre and State level may not be necessary and would merely duplicate the efforts of the existing institutes. The Ministry, however, feel that there is need for developing suitable linkages at various levels including District, State and National levels.

5.12. It has been stated that the activities such as providing marketing intelligence and service and chain of departmental stores, providing guidance, in production techniques, financial support, raw

materials and assured offtake of finished products etc., can be undertaken by the National Small Industries Corporation and State Small Industries Corporations. Their efforts need to be suitably strengthened and coordinated with other organisations including banks, Small Industries Service Institutes, public sector undertakings and private large scale undertakings producing raw materials.

5.13. On the suggestion for setting up separate marketing organisations for different groups of products like Electronics, Chemicals, Engineering etc., the Ministry have stated that there are already Corporations at the Central and State levels for products like Leather and Electronics. The possibility for setting up similar organisations for other industries would depend upon the nature of the industry, the number of units already in the field, its needs for marketing assistance, Research and Development facilities, etc. The initiative for establishing such Corporations should preferably be taken by either the industry associations themselves or by the State Governments in which there is major concentration of these industries.

5.14. Some State Government have expressed the view in their memoranda to the Committee that Central Marketing Organisation would definitely be very useful in marketing the products of SSI since the small units were not adequately equipped with marketing intelligence, information etc. and that the Central organisations would be able to market the products of one State to another.

5.15. However, another State Government stated that setting up of a network of Central marketing organisation all over the country for marketing the products of the SSI units may not be able to serve the desired purpose as the problems faced by the SSI units vary from region to region in various States of the country.

5.16. Secretary (Industry), however, informed the Committee that NSIC did not have sales outlet for itself. So far as SIDCs were concerned, State administrations had trade centres for display of small industries products. Emporia had been opened at different stations by State Governments. Linkages were established with concerned Small Industries Corporation and NSIC.

C. Role of SSICs

5.17. State Small Industries Corporations (SSICs) are set up by State Governments and operate within the role and functions assigned to them by the respective State Governments. Such Corporations have been set up in all States, including the Union Territories.

Originally conceived as development-oriented institutions, their objectives were in broad terms:

- i) To develop and promote small scale industries in the State;
- ii) To assist the units in the procurement of various raw materials;
- iii) To guide them in improving the methods and techniques of production; and
- iv) To help them in marketing their products.

5.18. Activities in Small Industries Corporations are mostly confined to development and promotion of small industries in the States by creating and managing industrial estates and providing small scale industries units with technical know-how, machinery on hire-purchase basis, supply of scarce and controlled raw materials and providing marketing support for their products particularly in the area of supply to Government departments and institutions.

5.19. According to Council of Small Industries Corporations of India (COSICI) out of 21 members, 15 State Small Industries Corporations and three Small Industries Corporations of Union Territories have included marketing assistance to Small-Scale Industries products under their activities. They have, however pointed out that the marketing activity has yet to make significant strides except in the case of Delhi State Industries Development Corporation, Madhya Pradesh Laghu Udyog Nigam and Maharashtra SSIDC

5.20. The Ministry have informed the Committee that there has not been any formal assessment or review of the overall role and working of State Small Industries Corporations in the field of marketing.

However, in order to re-orient the role and activities of the State Small Industries Corporation/Export Corporations, a study was conducted by the Indian Institute of Foreign Trade at the instance of the office of Development Commissioner, Small Scale Industries. The main findings and recommendations of the report are as under:

- (i) There is need to re-orient the role and activities of State Government and the State sponsored Corporations in order to play an effective role in the export effort of the country.

- (ii) The approach of the Corporation should be selective and it should identify the products manufactured in the State in the small and cottage sectors for export purposes.
- (iii) The Corporations should normally have 5 divisions i.e. Export Division, Import Division, Shipping and Documentation Division, Information and Research Division and Administration and Finance Division.
- (iv) The Corporation should be managed by a Small compact board consisting of the representatives of trade and industry, nominees of concerned departments of State Government and institutions, a representative from DC (SSI) and a nominee of Government trading Corporation such as S.T.C. etc. The Managing Director of the Corporation should possess adequate expertise in the field of export marketing.
- (v) Most of the State Corporations do not have adequate resources in terms of personnel to handle exports. It is, therefore, necessary that Small Industries Service Institute and Indian Institute of Foreign Trade may organise the training programmes on export marketing. The Indian Institute of Foreign Trade should decentralise these training activities and also organise increasingly tailor-made programmes exclusively meant for personnel of the State Level Corporations and State Government Departments.

5.21. It has been stated by the Ministry that there are several difficulties in providing direct marketing support to the small sector. Marketing problems under the present day economic world may arise due to a number of factors which include wrong selection of product, lack of adequate infra-structure facilities, non-availability of raw materials, credit facilities and other inputs, inadequate channels of distribution and other marketing facilities, lack of resources for organising, advertising and sales promotion activities and change in demand and consumer's preferences etc. The marketing problems are, therefore, numerous and vary according to the nature of the product, its demand, distribution pattern, size of the unit, its location and its overall quality, reliability and brand image etc. The Ministry have stated that as small scale sector is a very vast sector, it may be very difficult to organise and provide any programme of direct marketing assistance covering all the small scale units in the country. The idea of the magnitude of the

problem may be judged from the fact that there are about 8,00,000 small units which produce about 3,000 items. There can, therefore, be no just tailore-made solution to their marketing problems. The marketing is primarily an entrepreneurial function and much of the success in this field depends upon as to how the entrepreneur himself makes an effort to organise his marketing and sales operations. The various Government and semi-Government Organisations including National Small Industries Corporation and State Small Industries Corporation can, however, strengthen and supplement the efforts of small entrepreneurs by providing various facilities and inputs.

5.22. On the question of the role of the Central Government in regard to monitoring the activities of the small scale industries Corporations in the matter of marketing of SSI products the Ministry have stated that since SSICs are set up by State Governments and operate within the role and functions assigned to them by the respective States, Central Government is not, therefore, required to monitor the role of SSICs but information on their performance is received by the DC(SSI) from time to time. On the basis of this information the following suggestions have been put forth:

- (i) In order to have an overall view and also facilitate exchange of experience between Corporations, the Small Scale Industries Corporations could be requested to send a periodic six monthly report on their programmes and new initiatives to the DC (SSI).
- (ii) The Corporations can be useful in strengthening the marketing and sales efforts of tiny units and small scale units especially in backward areas. Recently, DGS&D have agreed to accord them facilities provided to small scale units, without verifying the individual capacity of the units whose marketing and sales efforts are mobilised by the Corporations. Availing of these facilities, the Corporations could assist small and tiny units in Government Purchases.
- (iii) Similarly, in the field of export marketing where bulk supplies are required with quality and delivery schedules, the Corporations can identify and select units and items matching export quality from their State and/or pass on relevant export market intelligence through appropriate linkages with the TDA, IIFT, NSIC and DC(SSI). Pending on work load a separate Division to look after

export operations could assist in the growth of qualified and professional staff.

- (iv) IIFT has already conducted a number of export potential surveys relevant to various States and the SSICs can make use of these studies for planning their export programmes and activities.

5.23. There are a large number of Government and semi-Government organisation rendering assistance to the small scale sector in the marketing of their products. There are for instance, small Industries Development Organisation with its net work of SISIs, National Small Industries Corporation with its branches, Trade Development Authority, Indian Institute of Foreign Trade and Export Promotion Councils at the Central level and State Directorate of Industries, State Small Scale Industries Corporations, District Industries Centres at the State level. As if these organisations were not enough to provide satisfactory service to the small scale sector, suggestions have been made to the Committee by non-official organisations that a Central marketing organisation, a federation of similar organisations at the State level, with sales establishments in each State and also separate marketing organisations for different product groups should be set up to serve the small scale sector. The Committee are not in a position to sit in judgement over the need for so many Government and semi-Government organisations in the marketing field. The Committee, however, wish that an overall view on the role and performance of each one of these organisations should be taken, with the help of a body of experts to determine whether all these organisations are in fact needed and are working in clearly defined fields without any overlapping and duplication in their efforts. The Committee desire that the Ministry of Industry should, in consultation with the administrative authorities concerned with these organisations, explore the possibility of organising a macro study of the responsibilities, areas of operations, performance and need for continuance in the present form of all the public organisation in this field.

(S. No. 56)

5.24. The Ministry have stated that it is very difficult to organise and provide any programme of direct marketing assistance to a sector as vast as the small scale sector covering 8 lakh small scale units in the country. The various Government and semi-Government organisations including NSIC and SSICs can, however, strengthen and supplement the efforts of small entrepreneurs by providing various facilities and inputs. But the question is; whether the Government and semi-Government organisations are playing their

part effectively to strengthen and supplement the efforts of small scale units. This would require a proper assessment of the role of each Government and semi-Government organisation before an answer to the aforesaid question can be found. The Committee feel that the Ministry of Industry are best suited to organise an overall assessment of the role and performance of each Government and semi-Government organisation in the field of marketing of products of small scale sector. Such a study can also be taken up by the expert study recommended in the previous paragraph. (S. No. 57)

5.25. With so many organisations already there in the marketing field, the Committee do not wish to recommend any addition to their number, as suggested by non-official organisations and certain State Governments. But the Committee do feel that there is an imperative need to develop suitable linkages between small scale units at the grass root level and District and State agencies in each State, between the agencies of one State and the other States, and also between the State agencies and the Central agencies, if the optimum advantage of the present marketing network has to be given to the small scale sector. The Committee would recommend that the Ministry of Industry should work out a suitable scheme of linkages at all these levels and make efforts to implement it.

(S. No. 58)

5.26. The small scale sector are not satisfied with the present arrangement for organised market information network. It feels that the information network is out-dated and of very limited utility. While the Ministry have denied that the present market network is out-dated and is of limited utility, they have stated that there is need for continuously updating the information and establishing a system by which the information is disseminated among the entrepreneurs in the shortest possible time. The Ministry propose to further strengthen arrangements to disseminate economic and other related information to small entrepreneurs during the Sixth Five Year Plan. The Committee desire that marketing information network for small scale sector should be adequately strengthened and up-dated to provide complete and timely information about the products in demand or likely to be demanded, their engineering specifications and all other aspects of marketing which can be helpful to the small sector.

(S. No. 59)

5.27. Out of 21 Small Industries Corporations in the States and Union Territories, 15 Corporations have included marketing assistance to the small scale industries products under their activities. The Committee are disappointed to learn that the marketing acti-

vity has yet to make significant strides except in the case of Small Industries Corporations of Delhi, Madhya Pradesh and Maharashtra.

5.28. The Committee are aware that SSIDCs are set up by the State Governments and Central Government are, therefore, not required to monitor the role of their functioning. But being key organisations in the States in the field of small scale sector, the Centre cannot just be oblivious of their performance or lack of performance on the ground of the Corporations being technically outside the Centre's control. The Committee feel that the Centre has a responsibility to discharge and a role to play in making the SSICs more dynamic in their activities. In fact, it is only the Ministry of Industry, at the centre which can as a coordinating and focal agency, organise, of course with the consent of the SSICs, a formal assessment or review of the overall role and working of State Small Industries Corporations with a view to making them more effective instruments of service to the small scale sector. (S. No. 60.)

5.29. The Committee take note of the fact that a study was conducted by the Indian Institute of Foreign Trade into the role and activities of the State Small Industries Corporations but this study, it is seen, was confined only to the export efforts of the Corporations. The Committee hope that the Ministry of Industry would impress upon the State Industries Corporations the need for implementing the recommendations of the Indian Institute of Foreign Trade to develop the export activities of the Corporations. . . .

(S. No. 61).

5.30. The Small Industries Service Institutes (SISIs) which have been set up at the State level make techno-economic studies and provide guidance to the small entrepreneurs from the stage of conception of the product to its actual marketing. These institutes also organise training programmes. The Ministry are conscious of the fact that the marketing expertise within the SISIs is somewhat limited. In this context the Committee take note of the assurance given by the Secretary, Industry, during the evidence that the marketing wings of the SISIs in different States will be strengthened to provide full information and assistance to the small scale sector in the matter of market surveys, investments, equipment and other relevant matters. The Committee hope that this task would be completed before long.

(S. No. 62).

D—Role of Trade Development Authority

5.31. It has been represented to the Committee that the Trade Development Authority was set up to get an idea of international behaviour in exports, but they have yet to produce a document where we know what is the plus point with our competitors, why countries like Taiwan, Hong Kong and Singapore are having exports ten times bigger than ours inspite of our having better infrastructural facilities in our country. Every time they have indicated scope in a particular area their assessment has been found to be incorrect.

5.32. It has been represented further that TDA has developed their offices only in developed countries whereas in our exports where the intermediate technology is required, there is better scope in developing countries. We should lay more stress on the developing countries.

5.33. The Ministry have stated that the Trade Development Authority (TDA) set up by the Ministry of Commerce aims at establishing a bridge of confidence between the overseas buyers and competent Indian manufacturers and exporters. It is a promoter of exports of selected products from selected supply sources for selected countries. TDA acts as a catalyst with a selective integrated approach to exports. From time to time Trade Development Authority have been publishing their market survey and buyers-seller meets reports. These reports give an idea of competition with foreign countries. Countries like Taiwan, Hong Kong and Singapore are primarily trading countries dependent on export trade, while India has a vast domestic market. The needs of their population and socio-economic priorities are very different as compared to India.

5.34. The Ministry have further stated that Trade Development Authority was set up initially to develop exports from India to selected developed countries because of their higher purchasing power and import requirements. Of late, because of higher income being generated in the oil producing countries in the Middle East and other developing countries, TDA is also assisting exporters from India in stepping up exports to some of the developing countries. A number of products for which Trade Development Authority has conducted market surveys, are produced and exported from the small scale sector. A substantial number of clients of Trade Development Authority (505 out of 726) are also from small scale sector.

5.35. The Committee have been informed by the Ministry that the various facets of competition from India's close competitors for

the selected products are also brought to the notice of the TDA clients in particular through publications of the TDA. Small Scale Units, which account for more than 60 per cent of TDA clientele are particularly benefited by TDA's services. The share of small scale units in the total exports of TDA clients to TDA market is the largest as shown in the following Table:

Exports of TDA clients to TDA markets during 1978-79

S. No.	Category	Value in Rs. lakhs	Percentage
1.	Small scale units . . .	4,284.8	44.98
2.	Medium scale units . . .	3,134.2	32.90
3.	Large scale units . . .	693.3	7.28
4.	Export houses . . .	1,013.3	10.63
5.	State Corpns. . .	306.2	3.21
6.	Consortia . . .	93.8	0.98
7.	Associations . . .	1.2	0.01
TOTAL		9,526.8	100.00

5.36. Secretary, (Industry) stated during evidence that TDA had taken out a very large number of reports. But the Ministry had made no assessment as to the extent to which the reports had been accurate and useful to the small scale sector.

5.37. When asked if TDA had made any attempt to list out at one place the plus points of the foreign competitors of small scale units of India in the field of exports, the DC(SS)I stated during evidence that the gists of the TDA's reports were published in the Marketing Bulletin—a quarterly digest. He stated that there would be no difficulty in publishing the plus points of foreign competitors in a book from for the benefit of small scale sector.

5.38. The representative of TDA stated during evidence that in 1978, TDA which was earlier concentrating on the markets of the developed countries, extended its activities in the ASEAN region, Hong Kong, South Korea and four Middle East countries. He stated that the question of opening offices in African countries, as suggested by its steering Committee was now under examination.

5.39. The Committee find that Trade Development Authority (TDA) was set up initially to develop exports from India to selected developed countries and since 1978 it has extended its reach to developing countries in South-East Asia and West Asia. The question of opening offices in African countries is also now under exami-

nation. The Committee would suggest that, taking note of the desire of small scale sector to reach the developing markets, TDA should extend its activities to more and more developing countries.
(S. No. 63)

5.40 TDA, it is stated, has conducted market surveys for products which are produced and exported from the small scale sector and has brought to its notice the various facets of competition from India's close competitors in selected products. Over 60 per cent of the clients of TDA are stated to be from the small scale sector which accounted for nearly 45 per cent of the total exports made through TDA in 1978-79. It is regrettable that even when small scale sector is a major partner in the TDA's activities, the TDA, it appears, has not been able to fully satisfy this sector. The Committee would suggest that more attention than in the past should be given by TDA to win the confidence of small scale sector.

(S. No. 64.)

5.41. The small scale units have felt the necessity of a document which should list at one place the plus-points of their foreign competitors in the export fields. The Committee were assured by DC (SSI) in evidence that they would bring out in a book form the plus-points of foreign competitors for the benefit of small scale sector. They hope that this publication will be out soon.

(S. No. 65)

5.42. The Committee take note that though TDA publishes a very large number of reports, no assessment of these reports has so far been made to determine the extent to which these reports have been accurate and useful to the small scale sector. The Committee would expect the Ministry to make such an assessment with a view to making these reports more informative and useful to the small scale sector.

(S. No. 66)

E. Indian Institute of Foreign Trade

5.43. It has been represented to the Committee that the Indian Institute of Foreign Trade has yet to produce a document on marketing of products of small industries. It has been stated by the Ministry that although the Institute has not brought out any document on marketing of the products of small industries, a number of publications including market surveys, product profiles and export potentiality surveys of various States are of considerable value to small entrepreneurs interested in the field of export trade.

5.44. During evidence, however, the Committee were informed by the representative of the Indian Institute of Foreign Trade that they had conducted a number of studies with a bearing on export marketing for small scale industries such as bicycles and bicycle.

parts in Bennelux countries, leather and leather manufactures in Japan, marketing survey on Cotton textiles, export potential of fresh and processed fruits involving field survey in 22 countries. Other studies include market survey on carpets, namdas, druggets, jute carpets in Australia, light engineering goods in Japan, machine tools and small tools, coir and coir based products polymer, fibres etc. A list of studies made by IIFT was furnished to the Committee.

5.45. The Committee wanted to know if steps had been taken to see that the advantage of the studies reached the small scale industries. The representatives of the Indian Institute of Foreign Trade stated that the results of these surveys were submitted to the Export Promotion Council, which in turn passed on the information through their bulletins, seminars etc. to their members. It was also given to press, SISIs, trade associations and chambers of commerce. Besides, a number of training programmes were organised by the Institute in different parts of the country. In these training programmes information regarding market accessibility in various countries was discussed.

5.46. The Committee are informed that Indian Institute of Foreign Trade has conducted a number of studies with a bearing on export marketing for small scale industries. These studies, it is stated, are published in the bulletins of Export Promotion Council and are also supplied to the Press, SISIs, trade organisations and Chambers of Commerce. But, if the reports reaching the Committee from small scale sector are to be believed, this sector does not appear to be much aware of these studies. The Committee would suggest that communication gap between the Institute of Foreign Trade and the small scale sector should be removed so that the small scale sector for whom so much of work is claimed to have been done by the Institute, can benefit from their studies.

F—Consortia Approach

5.47. Inability to compete with large scale sector manufacturing similar products for a wider consumer market has been identified as one of the major problems faced by small scale industries.

5.48. It has been stated by non-official organisation that small scale units can group themselves to form consortia to be able to offer sufficient volume and range of products.

5.49. The Ministry have stated that the Development Commissioner (Small Scale Industries) has already undertaken some efforts to promote export consortia of small scale units and a few consortia have already been recognised by the Ministry of commerce as export

houses. The programme is proposed to be further activated by introducing a scheme for assistance to export consortia in their initial year of formation by providing financial assistance so that they may grow into fulfilled export houses. Similar scheme is also under consideration for internal marketing.

5.50. It has been further stated that under the scheme of export consortia, assistance is provided to small units for organising their marketing channels, conducting overseas marketing surveys and other sales promotion programmes.

5.51. The Secretary, Industry, informed the Committee during evidence (Jan., 1981) that the scheme of consortia for internal marketing was under evolution and would take upto 6 months to be ready.

5.52. So far as the export consortia are concerned, they have exported marine products, readymade garments and selected engineering products and leather products. During 1976-77, 1977-78 and 1978-79 the exports amounted to Rs. 11 crores, Rs 12.73 crores and Rs. 20 crores.

5.53. In a recent study made by the Indian Institute of Foreign Trade on Role of Small Industries in Export Promotion, it has been stated that despite the various incentives available under the Import Policy, the scheme for Consortia Export House has also not clicked. The reasons according to the study are the same as for the failure of any form of cooperative activity. To organize them and ensure their development on sound lines, bold and imaginative policies are needed. It has been suggested that SSI units should be encouraged, through various incentives, to form themselves into cooperatives for multifarious purposes such as purchase of raw materials, common service facilities and marketing including exports. Attempt should be made to make them economically viable. To this end, State Governments should provide liberal financial assistance including participation in share capital. To ensure their working on sound lines, it is necessary that these societies should be managed by professionals. SIDO should depute one of its officers to act as full-time Secretary of the Cooperative Society and bear his salary and a part of other expenses till the Society becomes financially viable.

5.54. The Committee welcome the initiative taken by DC(SSSI) in promoting consortia approach among small scale units to step up the marketing of their products in home and foreign markets. The export consortia have already come up and are playing an active role. The scheme of consortia for internal marketing is likely to be ready by the mid year. The Committee would urge the Ministry

to finalise the scheme of internal marketing consortia expeditiously and give it full support to make it a success. (S. No. 68)

5.55. The Committee, however, note with concern that the scheme of export consortia has, according to a recent study made by the Indian Institute of Foreign Trade, not clicked. The Study has listed a number of reasons for the failure of the scheme and has made certain suggestions for the development of the export consortia on sound lines. It will be very sad if scheme for export consortia which has a tremendous potential for boosting exports from small scale sector is allowed to fail. The Committee would suggest that the Ministry of Industry should study the area of weaknesses of the export consortia and take all possible measures to put them back in good health to be able to serve as effective instruments of service to small scale sector in the field of exports. (S. No. 69)

CHAPTER VI

LINKAGE WITH LARGE INDUSTRIES

A. Ancillary Development

6.1. It has been represented to the Committee that there is no compulsion either in industrial licensing policy framework or otherwise in ensuring that large scale industry buys a specified percentage of items as are capable of being made in small units. Further that there is no continuing assurance of demand so as to enable ancillary units to plan full utilisation of their capacity. It is felt in non-official circles that there are several deficiencies at the policy and implementation levels in the ancillarisation programme.

6.2. It has been accepted by the Ministry of Industry, that in spite of a number of promotional measures taken, ancillary development has experienced several drawbacks and deficiencies during implementation. These relate to procedures of placement of orders, lack of specific off-take assurances, delays in inspection, and consequently payment of bills, lack of pricing mechanism, etc.

6.3. The Ministry have stated that in the revised guidelines of the Bureau of Public Enterprises, there is a specific provision that in all proposals for setting up new Public Sector Enterprises (PGEs) or for expansions of existing ones, scope for ancillarisation should be spelt out. A suggestion that new or expansion projects in the large scale sector should be approved after their ancillarisation/sub-contracting programme is scrutinised by appropriate agency, is also under consideration. In the Industrial Policy Statement announced in July, 1980, special emphasis has been placed on ancillary development through the establishment of nucleus plants. In the words of the Statement "a nucleus plant would concentrate on assembling the products of the ancillary units falling within its orbit on producing the inputs needed by a large number of smaller units and making adequate marketing arrangements. The nuclei will also ensure a widely spread pattern of investment and employment and will distribute the benefits of industrialisation to the maximum possible. The nucleus plants would also work for upgrading the technology of small units." The concept is now being given a concrete shape in consultation with the State Govts.

6.4. Secretary (Industry) stated during evidence that "it is a fact that, though it cannot be quantified the ancillary development has not progressed to the extent we had hoped for due to structural factors."

6.5. This, in his view, was due to the following factors:—

- (1) Because of lack of confidence on the part of entrepreneur, who sets up a new project, in the capability of small units to supply components of good quality to meet his needs the entrepreneurs sets up those facilities also in this project in the initial stage.
- (2) The size of operations is not such as can sustain the economic viability of an ancillary unit for a long time;
- (3) By the time a large unit comes up, a large volume of unutilised capacity in the small sector is already there. There is thus no incentive to ancillarise new units.
- (4) Cost of production in a small unit may be more than in a large unit.

6.6 As regards the question of making ancillarisation a precondition to investment in the large sector, the Secretary Industry expressed the view that:—

"In terms of policy, it is a matter of very grave judgment whether or not you are going to make investment in a large industry conditional on the ancillaries. I would say that this is a policy judgment of a very very grave magnitude and is of very serious implication that it will be impertinent on my part to submit to the Committee any view on this because this is a matter where unless the Government has taken a decision, I cannot express a view. There are many aspects to it. Apart from that we have to see the effect it may produce on investment itself".

6.7. The witness stated that subject to the above, it was possible to go into an appraisal analysis of an industrial project. It would also be examined how individual investment, vertical or horizontal investment could be avoided by dispersal of investment in large number of units. He added that such appraisal would be very good before issuing a letter of intent both in the Ministry of Industry as well as in financial institutions.

6.8. The Secretary added that "letter of intent gets issued only after ancillarisation project has infact been worked out".

6.9. Secretary, further stated that "it is not possible or desirable to universalise ancillarisation as absolutely necessary precondition and all that. There are exceptions".

6.10. When asked if it was not possible or desirable to lay down some guidelines of some rules in this regard and bind the large industries in certain areas to go in for smaller ancillary units, Secretary, Industry stated that it was not possible for a large unit today to avoid procurement of a large number of components from outside sources because the investment that was needed was so large that they would become economically unviable. He added that the standard bought out items were procured by large establishments as they could not afford to manufacture them in their factories. The specific components which were required by the large industries were allotted to the ancillary industries so that they could manufacture them.

6.11. The witness added that "we can certainly make out the number of bought out items and we can say that those items shall not be made in the factories. As a matter of fact, this is something which is checked up that while seeing the capital cost of different project, if we do not do that the capital cost of the project will be so prohibitive that it will not be possible to set up the plant at all."

6.12. He added that a stage of ancillarisation had now been reached where "apart from our own positive direction, the economics of the production itself will compel progressive ancillarisation because such a massive investment is no longer possible or economical".

6.13. When specifically asked about the efforts made by Government and the attitude of the Government in the matter of ancillarisation, Secretary, Industry stated that whenever a project was brought before the Ministry, the investment portion was scrutinised.

However, he clarified that ancillarisation had not been made a condition.

Strategy for ancillary development

6.14. The Committee have been informed that a Committee set up by the DC SSI to prepare an outline of a strategy for ancillary development during 1977-78 had considered and recommended several incentives for large scale industries promoting ancillary units. These included lower rates of interest on capital loans for

large undertakings engaged in ancillary development, rebate on capital cost expenditure on common facilities centres and running cost of such centres set up by large industries under Section 35 of I.T. Act on the same basis as allowed on expenditure on R & D, relaxation in excise, sales-tax and octroi on inter-factory transactions from large units to ancillaries and *vice-versa*, etc.

6.15. The DC SSI stated during evidence (January, 1981) that the recommendations of this Committee would be placed before the SSI Board which was to be convened shortly.

Monitoring Mechanism

6.16. In regard to a suggestion that there should be a suitable monitoring mechanism for implementation of the ancillarisation programmes the Committee have been informed that a monitoring mechanism to watch the implementation of ancillary development programme by Central PSEs is already suggested in the BPE guidelines, which also fix the responsibility of the management of PSEs for providing technology input, testing facilities, etc. to small scale ancillaries. Such support is also extended to small scale sub-contracting units by progressive large and medium units in private sector, e.g., Escorts Ltd., Lucas-TVS Ltd., Peico Ltd., etc.

Ancillarisation in Public Sector Enterprises

6.17. Public sector enterprises have been issued detailed guidelines by the Bureau of Public Enterprises for the growth and development of ancillary industries. These guidelines clearly spelt out the steps to be taken by the public sector enterprises on the policy and the planning of ancillarisation in the undertaking namely methodology of placement of orders, pricing system, long-term relationship and mutual obligations of parent and ancillaries, payment procedures etc. The public sector enterprises have been advised to draw up suitable purchase contracts between the public sector and individual ancillary units so as to provide a sense of security and encouragement to the small scale units.

6.18. For monitoring the progress of the growth and development of ancillary units, half-yearly progress reports from the public sector enterprises are received by the Office of the Development Commissioner, Small Scale Industries. These reports contain details of ancillary units in operation and purchase made by public sector enterprises both from ancillary and other small scale industries during the period under review. This system is said to have proved to be very effective keeping a regular watch over the

assistance rendered to the small scale units by the large scale undertakings.

Purchases made by large scale industries

6.19. There has been progressive increase in the supplies made by ancillaries to public sector enterprises from Rs. 6.6 crores during 1969-70 to Rs. 118.92 crores during 1979-80. A statement showing the value of purchases made by 66 public sector enterprises from different small scale ancillary industries during the last 5 years is given below:—

Year	Supplies made by ancillaries to public sector enterprises Rs.
1974-75	29.31 crores
1975-76	36.36 crores
1976-77	44.98 crores
1977-78	51.78 crores
1978-79	78.15 crores
1979-80	118.92 crores

6.20. The above figures do not cover purchase made from small scale units by departmental undertakings of the Central and State Governments. These undertakings in most cases obtain supplies from a number of small units, not necessarily those which are ancillaries to them. Since many of these undertakings have decentralised their purchasing systems, complete information about the purchases made by them is not readily available. However, it is estimated that the total value of supplies made by the small scale ancillary units to the above organisation (including Central Public Sector Enterprises) would be around Rs. 150 crores in 1978-79.

6.21. The Ministry have stated that there is at present no system of feed back in respect of the procurements made by the large scale industries from the small scale units. However, a limited effort is made in collecting relevant information from the manufacturing Central Public Sector Enterprises of the support provided by them to the small scale units in obtaining their requirements.

6.22. Referring to the purchases made by 66 Central Government Public sector undertakings from ancillary and small scale

sector during 1979-80, which were of the order of Rs. 118.92 crores, the Ministry of Industry have stated that "in more cases, the percentage of procurement from small scale industries to the overall purchases made by the public sector enterprises is less than 10 per cent. It is partly due to the fact that bulk of purchases comprise of basic raw materials like steel and chemical items which are not being produced by the small scale sector".

The Ministry have stated that there is no minimum procurement prescribed for Central Government public sector enterprises under the ancillary development programme of the Central Government. The SISIs located in various parts of the country are regularly in touch with the Central Government public sector enterprises located in various States to accelerate the pace of procurement of various items from the small scale sector. As a result of the efforts, the figure of overall procurement of stores from small scale industries has registered an increase during the last 10 years, from Rs. 29.31 crores in 1974-75 to Rs. 119.00 crores (approx.) in 1979-80.

6.23. The representative of the Bureau of Public Enterprises stated during evidence that no directive on the percentage of purchases to be made by public sector enterprises had been issued. He added that in 1975-76 the total number of ancillaries serving the public sector was 479 and the purchases from ancillaries and small scale units were of the order of Rs. 36.36 crores. In 1979-80 the figure had gone up to 888 and the total purchases from the ancillaries attached to the public sector was Rs. 119.96 crores. He stated that in the matter of 4 years the increase was four-fold. A watch was being kept and Bureau of Public Enterprises was constantly in dialogue with the public sector to develop more and more ancillaries and purchases from the small and ancillary sector.

6.24. When the Committee asked whether the four-fold increase in value of purchases was because of price rise or increase in volume of purchases in quantitative terms the representative of Bureau of Public Enterprises conceded that the increase in the value of purchases could be due to price increase. He, however, added that the number of units serving the public sector had also increased from 479 to 888 during the period.

6.25. The Ministry have stated that no targets could be laid down for purchases to be made by public Sector Undertakings since the quantum would depend upon the activities and product range of the Undertakings.

It has been stated that although no targets for the individual undertakings are proposed, efforts are continuing to increase their quantum of purchases from small scale/ancillary units, through-personel meetings with the Chief Executives and promotional activities like Buyer-Seller Meets, Ancillary Development Seminars, etc.

Study:

6.26. Asked if any study had been made by the Ministry of Industry in terms of the requirements of the public sector units under their control and the items that could be purchased from the small scale sector, Secretary (Industry) stated that no such unit-wise study had been made.

6.27. The representative of the Bureau of Public Enterprises also stated that they too had not made any study of this nature for individual public sector units.

6.28. When it was pointed out by the Committee during evidence that the Ministry of Industry which were responsible for the development of small scale sector, should set an example for other Ministries by undertakings such a study in respect of public sector units under their Ministry, the Secretary (Industry) assured the Committee that a unit-wise study in respect of the thirty production units under the Ministry of Industry would be undertaken and an optimum level of procurement from small scale sector would be drawn up and implemented.

6.29. The Ministry have agreed that although there is a continuous increase in purchases made by Public Sector Enterprises, there is still scope for improvement in this regard.

Guidelines for Public Sector Enterprises:

6.30. The Committee have been informed that guidelines have been issued to the Public Sector Enterprises by the Bureau of Public Enterprises for growth and development of ancillaries.

6.31. The revised and updated guidelines issued by the Bureau of Public Enterprises to the Central Public Sector Enterprises in May, 1978 cover the following main points:—

- (i) A note on progress of implementation of the programme indicating orders placed on ancillaries, number of ancillaries identified, cases of delayed payments beyond 30 days after acceptance of goods, cases where inspection and acceptance has taken 30 days, etc. may be placed in the

meeting of Board of Directors as a point of regular agenda for discussion. Minutes of discussion may be forwarded to Admn. Ministry, DCSSI, BPE, SISI and State D.I.

- (ii) All PSEs engaged in production to appoint full time Senior Management Officer as Ancillary Development Officer.
- (iii) Ancillary Development Advisory Committee (Plant Level Committees) to be formed under Chairmanship of Chief Executives including a representative each from SISI, State D.I, SIDC, financial institutions and ancillaries' associations, if any, to review the progress of the programme periodically and to assist management in matters of policy and planning of ancillarisation in the undertaking.
- (iv) All PSEs to review their production programmes with a view to vacate such areas/items/services, which can be off-loaded to SSI units without creating difficulties regarding utilisation of available capacities, etc.
- (v) PSEs to take on responsibility for providing technical know-how and managerial guidance on a number of specific areas.
- (vi) Suitable purchase contracts need to be drawn between the Public Sector Enterprises and the individual ancillary units keeping in view a guarantee of at least 50 per cent off-take of the annual production of the ancillary unit to be given by PSE for a reasonable period to cover development period or as mutually agreed upon.
- (vii) Wherever circumstances force PSEs to change or diversify their product-lines necessitating modifications in design of ancillary items already allotted to an ancillary unit, adequate notice might be given to the unit. Wherever, production development cost has not been recovered by ancillary units, suitable compensation to offset the loss might be given in subsequent orders wherever possible.
- (viii) All detailed Project Reports prepared and approved for Public Enterprises should, as a rule, provide for setting up of ancillary units in the small scale sector as part of project scheme itself.

6.32. The Ministry have stated that although there has been progress in the ancillary development programme followed by PSEs, the guidelines have not been implemented in all respects by all PSEs. There are complaints against Public Sector Enterprises in matters like change in specifications, placement of orders, delays in inspection and consequent payment of bills etc. Wherever such difficulties are brought to the notice of DCSSI or SISIs, the matter is taken up at appropriate levels to solve the problems.

6.33. In a note submitted after evidence the Ministry have stated that from the reports received by the Bureau of Public Enterprises, Public Sector Undertakings which have scope for ancillarisation, have shown progress in the implementation of the ancillarisation programme over the last few years. As a result of these efforts about 70 Central Public Sector Enterprises have nominated senior management level officers as full time incharge of the Ancillary Development Programme and have also constituted Ancillary Development advisory Committees, popularly known as Plant Level Committees in their undertakings. However, in some 30 units out of a total of more than 100 undertakings Plant Level Committee have not yet been set up. In their case, the scope for ancillarisation is considered rather limited. Such undertakings include Indian Rare-Earth Limited, Hindustan Salt Limited, Sambar Salts Ltd., Rehabilitation Industries, Corpn. Ltd. etc. However, in such cases also the Bureau of Public Enterprises and the DC(SSI) are stated to be in touch with the concerned undertakings to explore the possibility of ancillarisation/sub-contracting to the maximum extent possible.

6.34. The representative of Bureau of Public Enterprises stated during evidence that ancillarisation was a continuous process. There were certain Public Sector Enterprises where ancillarisation had been very good. Regular half yearly reports were being received by Bureau of Public Enterprises from about 42 undertakings but then there were nearly 31 other undertakings which were not sending regular report to Bureau of Public Enterprises. The representative assured the Committee that the matter was being taken up with them and it would be possible to get reports from these undertakings in the next six months or so. He added that many of these units were those which had been taken over as sick units.

6.35. Several drawbacks and deficiencies experienced in the development of ancillary units have been brought to the Committee's notice and accepted by the Ministry. The slow progress of ancillary programme is attributed inter alia to lack of confidence on the part

of big entrepreneurs in the capacity of small scale units, un-utilised capacity in the already existing small units acting as a disincentive to ancillarisation of new units and the higher cost of production in a small unit. The Committee are informed that though every letter of intent in the case of a large unit is issued only after its ancillarisation project has been worked out, Government have not yet taken any decision to make ancillarisation a precondition for setting up a large unit or expanding an existing unit. The Committee feel that it is not only the economics of production but also the social compulsion to bring about decentralisation of means of production that demand ancillarisation to be adopted as a matter of State policy in industrial field. Even if it is not possible, as stated by Secretary (Industry), to universalise ancillarisation as absolutely necessary pre-condition in all cases, the Committee see no reason why a beginning in this direction cannot be made immediately in selected fields, to start with, and it is extended to other areas progressively in the light of experience. The Committee would like the Government to take a policy decision in this direction without any delay.

(S. No. 70)

6.36 In the Industrial Policy Statement announced by Government in July, 1980, a special emphasis has been placed on ancillary development through the establishment of nucleus plants. A 'nucleus plant' would concentrate on assembling the products of ancillary units falling within its orbit and it would also work for upgrading the technology of small units. The Committee are informed that the concept of 'nucleus plant' is now being given a concrete shape in consultation with the State Governments. The Committee welcome this new approach of nucleus plants and urge the Government to concretise this concept and implement it expeditiously.

(S. No. 71).

6.37. The Committee are informed that a panel set up by DCSSI have outlined a strategy for ancillary development and their recommendations are to be considered by the SSI Board shortly. The Committee would like this exercise to be completed early and the plan of action to implement the strategy drawn up without delay and implemented in earnestness.

(S. No. 72)

6.38. The Committee regret to find that at present there is no system of feed back in respect of procurements made by large scale industries from small scale units. It is still more regrettable that information in respect of purchases made even by departmental

undertakings of Government from Small Sector is not available with the Ministry. The Committee would like that a suitable information system should be devised to collect feed back on the progress of ancillarisation and procurements made from small scale units by large industries in public and private sectors and departmental undertakings to enable the Ministry to monitor the progress made by ancillarisation programmes and to take corrective measures; as and when necessary. (S. No. 73)

6.39. From the data supplied by the Ministry in respect of 66 manufacturing public sector enterprises (PSEs) of the Central Government, the Committee find that in 1979-80 these undertakings procured items worth about Rs. 119 crores from small scale industries. This was less than 10 per cent of their total purchases from outside. Though it was claimed that there was nearly fourfold increase in the value of purchases by PSEs from small sector between 1975-76 and 1979-80, BPE agreed that the increase in value did not reflect increase in volume of purchases in quantitative terms in view of general price rise. The Committee, however, take note that the number of ancillaries serving the public sector enterprises had risen from 479 in 1975-76 to 888 in 1979-80. The Committee strongly feel that, even though no uniform targets for purchases to be made by public sector enterprises from small scale sector may be possible because of the product-range of the undertakings, there is great scope for stepping up purchases from small scale sector and the purchases should be stepped up and monitored by Ministry of Industry with a view to taking up the matter with the administrative Ministries concerned for corrective action, if and when necessary. (S. No. 74)

6.40. The Committee are disappointed to find that no study has been made either by the Ministry of Industry or the Bureau of Public Enterprises (BPE) as to the range of items that can be purchased by public sector enterprises from small scale sector. The Committee had expected that atleast the Ministry of Industry which have been charged with the responsibility of looking after the interests of small scale sector, would have made such a study in respect of undertakings under them. The Committee would strongly urge that the Ministry of Industry should immediately undertake a study to determine the optimum level of procurement that can and should be made by public sector enterprises under their control from small scale sector and issue clear directives to the undertakings to procure such items from the small scale sector. The Committee would like to be informed of the outcome of such a study within six months. (S. No. 75)

6.41. The Committee would urge that Bureau of Public Enterprises (BPE) should also arrange for a similar study to be made through the administrative Ministries in respect of public sector enterprises under the control of respective Ministries. The Committee would expect the Ministry of Industry to liaise with BPE and administrative Ministries to ensure expeditious completion of such studies and necessary follow-up action in the light of the studies.
(S. No. 76)

6.42. The Committee would also suggest that Ministry of Industry should take up with State Governments the question of undertaking such studies in respect of the public sector enterprises of the States concerned.
(S. No. 77)

6.43. The Committee regret to note that though a number of guidelines have been issued by the Bureau of Public Enterprises (BPE) to public sector enterprises of the Central Government for the growth and development of ancillaries, the guidelines have not been implemented in all respects by all the public sector enterprises. The Ministry of Industry have received complaints against the public sector enterprises in matters like change in specifications, placement of orders, delays in inspection and consequent delays in payment of bills, etc. In about 30 out of the 100 undertakings which have scope for ancillarisation, Plant Level Committees for ancillary development programmes have not been set up as required under the guidelines. Regular half-yearly reports in regard to ancillarisation programmes are not being received from nearly 31 undertakings. The Committee take serious note of the public sector enterprises' disregard of the guidelines issued by BPE. This is a serious reflection not only on the coordinating role of BPE but also on the control of administrative Ministries on the enterprises. The Committee would expect the Ministry of Industry to take up this matter with the administrative Ministries concerned to ensure that guidelines issued to public sector enterprises for the development and growth of ancillaries are implemented by all of them in letter and spirit and progress reported to the authorities concerned as laid down under the existing guidelines.
(S. No. 78)

B. Delayed Payment to SSI units

6.44. According to reports reaching the Committee one of the serious problems that are faced by the SS units in their marketing effort is the non-payment of dues in time by larger organisations, including state agencies.

6.45. The Ministry of Industry have accepted that payment procedures and the period of payment are among the various factors that affect the health of the ancillary units. while placing orders on the small scale ancillary|sub-contracting units, the purchasing organisations normally mention a period within which the payment of the goods supplied by such units would be made. However, experience has shown that in a number of cases, the period of payment is extended much beyond the one stipulated in the order form with the result that the finances and the liquidity of the small scale ancillary units is adversely affected. This problem of delayed payments assumes a very serious proportion when the payments against supplies made to large scale industries are extended beyond 90 days and in some cases even beyond six months. The Ministry have added that wherever such cases are brought to the notice of the DC (SSI), efforts are made through persuasion to bring about an early payment of the dues and the issues are settled amicably in most cases. However, in the absence of any mandatory or regulatory support, these efforts can only be persuasive and their outcome would largely depend on the goodwill between the purchasing organisations and the small scale ancillary units.

6.46. The Ministry have further stated that the problem of delayed payments has been considered by a number of committees including the Bhatt Committee on drafting legislation for small scale industries. It had been recommended that the items supplied by small scale units should be inspected within two weeks of their submission and payment should be made within the specified time not exceeding 90 days. The Bhatt Committee had also suggested that use may be made increasingly of the instrument of bill of exchange by small scale units for realising amounts due to them from large industries.

6.47. Certain steps are stated to have been taken to get over the difficulty of delayed payments.

6.48. In respect of delayed payments occurring to small scale units working as ancillary to the Central Public Undertakings, there is a provision in the guidelines of Bureau of Public Enterprises that cases of delayed payments beyond 30 days after acceptance of goods and cases where inspection and acceptance has taken more than 30 days etc. may be placed in the meeting of the Board of Directors of Public Sector Undertakings as a part of regular agenda for discussion and the minutes of the decision may be forwarded to Administrative Ministry, the DC SSI, BPE, SISI, and State Directors of Industries.

6.49. During evidence the DC(SSSI) informed the Committee that he was not receiving the minutes of discussions of meetings of the Board of Directors of the Public Sector Undertakings. Hence he was not able to say how many such cases had been taken up in the Board meetings. DC(SSSI) was also not aware of any action that might have been taken by the Bureau of Public Enterprises in this matter. He added that since he was supposed to receive minutes only if any case of delayed payment came up before the Board, he presumed that there had been no case of delay.

6.50. The representative of the Bureau of Public Enterprises stated that half yearly reports were being received in BPE. But according to these reports there was no case of delayed payments.

6.51. The Reserve Bank of India have also issued instructions to all commercial banks, to get over the difficulties of delayed payments, that the accounts of the creditors should be bifurcated to show the dues of SSI units and those remaining unpaid for over 120 days. The banks are advised to fix separate credit limit for purchases made from small scale units.

6.52. This would enable the banks to take suitable measures for ensuring payments due to small scale units within a definite period. The Committee have, however, been informed that detailed feedback from the banks in this respect has not received and the impact of the above instructions, therefore, is yet to be assessed.

6.53. The Committee have been informed by the Ministry that in the case of private sector organisations, there are no guidelines covering the payments to be made by them to their ancillary/sub-contracting units. In a number of cases such transactions are carried out through the medium of Bill Discounting Schemes of the Banks, whereby 90 per cent of the payment against the supplies made by ancillary and sub-contracting units to large undertaking is made by the banks on production of valid documents of supplies. However, the snag in the operation of this scheme emerges when the bills are not honoured by the purchasing organisations after a period of 90 days. In such cases, the amount advanced by the banks to the small scale ancillary units is considered as a loan to the small units without affecting the liquidity or finances of the large scale purchasing organisations. In case the Bill Discounting Scheme has to operate to the advantage of the small scale ancillary units, it would be desirable to make a provision that in case payments are delayed by large and

medium sector undertakings beyond 60 days, the amount would be treated as advance to them and not as a loan to small scale units. Unless this were done, the delays in payments would upset the whole financial and production planning of the small scale ancillary units.

6.54. The Ministry of Industry have stated that the problem of delayed payments has been voiced in many official and non-official forums and a number of suggestions have been made to overcome the problem. One of the suggestions was to evolve a procedure similar to one followed by the Directorate General of Supplies and Disposals in the matter of purchases from small scale sector. The procedure followed by the DGS&D normally stipulates 95 per cent of the payment on proof of despatch and remaining 5 per cent on acceptance of goods by the consignee. While following a similar procedure, it may be stipulated that the balance 5 per cent of the payment should be cleared within a period of 30 days of the despatch of goods by the ancillaries and in case of delay in payment beyond beyond this stipulated time, the purchasing organisation may be called upon to pay the bank interest paid by the small scale units on the outstanding amount.

6.55. An important suggestion to overcome the problem of delayed payments was to enact a proper legislation, which might stipulate a maximum time limit for payment of bills of small scale units by the large and medium sector undertakings and also delayed payments. However, a view was expressed against legislation by certain concerned agencies that any legislative control on business transactions between the large and small sectors might adversely affect the mutual goodwill between the buyers and sellers and may also result in arbitrary rejections of the goods supplied.

6.56. The Ministry have stated that it is understood that in Japan there is a provision under the law for arbitration in the case of disputes regarding payments between the purchasing organisations and the small scale supplying units. Evolving a suitable mechanism for arbitration by a specified authority such as the Director of Industries in case of delayed payments might be a halfway step between the legislation and the free trade as at present. Since the delayed payments is a very serious problem confronting the small scale ancillary/sub-contracting, the Ministry are of the view that remedial measures will need a careful study of pros and cons of the different suggestions made, to ensure that the remedy does not prove counter-productive.

6.57. The DC(SSSI) stated during evidence that Government's ability to control payments by the private sector were somewhat limited unless a comprehensive legislation was brought forward for the purpose. He stated that Government are examining whether a legislation on these lines would, in fact, help the small scale units. There is a point of view that even by legislation the payment cannot be controlled and that it will not really help the small Scale units. He added, however, that Government's ability to do it in the absence of a legislation could only be persuasive and not of a controlling nature.

6.58. Delays in payments by large and medium industries are reportedly creating serious problems for the small scale sector, and the Ministry are well aware of them. The Reserve Bank of India have issued certain instructions to commercial banks to ensure that payments due to small scale sector are made by large and medium units within a definite period but the impact of these instructions is yet to be assessed. With the similar aim Bill Discounting Schemes have been introduced by commercial banks but even these schemes have not proved very useful to small scale units because of certain snags. From all this the Committee are constrained to conclude that the Ministry have not appreciated the seriousness of this problem as otherwise they could certainly have taken up the matter with the Reserve Bank of India and commercial banks with a view to refining the already operating schemes so as produce the desired results. The Committee would expect the Ministry to review the schemes and plug loopholes and snags so as to ensure that these schemes fulfil the objective for which they were introduced. (S. No. 79)

6.59 The Committee are of the opinion that the procedure followed by DGS&D in the matter of purchases for Government departments is an ideal procedure under which 95 per cent of the payment is made on proof of despatch of goods and remaining 5 per cent on acceptance of goods by the consignee. The Committee would like the Ministry to explore the feasibility of evolving a similar payment procedure to be followed by large and medium undertakings in private and public sector in respect of goods supplied to them by small scale sector. (S. No. 80)

6.60. The Committee are aware that in the absence of any mandatory or regulatory support to enforce prompt payments, the efforts of the Ministry can only be persuasive and the outcome not certain in all cases. The Committee are of the positive view that any scheme

to be successful in this field will have to be backed up by statutory power of intervention either by Government or by banks on whom the large and medium undertakings depend for their working capital and the like. If the small scale sector has to be helped out of financial problems created by large and medium undertakings, the sooner a suitable legislation is enacted, the better it would be.

(Sl. No. 81)

6.61. The Committee are informed that a number of bodies including the Bhatt Committee on Drafting Legislation for Small Scale Industries have made certain recommendations to solve the problem of delayed payments but it appears that the problem has not been solved satisfactorily so far. The Committee find that there is no dearth of ideas to attack this problem; what is missing is conclusive action and regular monitoring of the effectiveness of the measures introduced from time to time. The Committee would like the Ministry to examine critically all the ideas thrown up by the various bodies and evolve a multi-pronged approach to tackle this problem effectively without any further delay. The Committee would like to be apprised of the packet of proposals which the Ministry would like to implement in this regard.

(Sl. No. 82)

6.62. Certain guidelines have been issued to Public Sector Undertakings for enforcing prompt payment to small scale industries. According to these guidelines cases of delays have to be regularly placed before Board of Directors at their meeting and minutes of such meetings communicated, among others, to BPE, DCSSI, SISI and State Directors of Industries. No such minutes have been received from public sector undertakings by the DCSSI. The Committee do not agree with the DCSSI that in the absence of any communication from public sector undertakings in this regard he could presume that there had been no case of delay in payment by public undertakings. The Committee would like the Ministry of Industry to arrange to make case studies of purchases made from small scale sector by public sector undertakings, say, during 1980, and see whether payments therefor were made within the prescribed period. The Committee would expect the Ministry to take effective measures in the light of the studies.

(Sl. No. 83)

C. Undercutting of Prices by large industries

6.63. It has been stated in a memorandum that the cases are not wanting where a large scale units has deliberately undercut the

prices of some of the products which are also being produced by the SSI units and raising very considerably the prices of other products where they have almost monopoly. Such action on the part of large manufacturers should be covered under Monopoly and Restricted Trade Practices Act and taken cognisance of by the Monopoly and Restricted Trade Practices Commission.

6.64. The Ministry have stated in this connection that although there are no specific complaints of under-cutting of prices by large scale industries, there are often complaints that large manufacturers charge relatively higher prices on the raw materials and intermediate products supplied by them to small units for manufacturing finished products. As a result of this practice, the products manufactured by small units become costlier as compared to the same products produced in the large scale sector. Some of the product groups where this unhealthy competition has been felt include plastics, aluminium products, drugs and pharmaceuticals, soap, agricultural implements etc. There is a general complaint that large scale units adopt of undercutting of prices practice to eliminate the small scale units from the market. The Ministry have welcomed the suggestion that the recourse in this connection may be made to the Monopolies Commission under MRTP Act. The Ministry have assured the Committee that specific complaints will be verified by the Director of Industries and the Director, Small Industries Service Institute of the State in which the unit exists before these are forwarded to the Monopolies Commission.

6.65. The Secretary Industry stated during evidence that there is no deliberate policy as such but there are instances where small units have to buy intermediate goods from large units and large units have capt plants for the purpose. There is always a difference between the commercial price and transferable price.

6.66. The Committee are informed that in certain cases large manufacturers charge relatively higher prices on raw materials and intermediary products from small scale units with the result that the products manufactured by small scale units become costlier as compared to the same product produced in the large scale sector. Such an unhealthy practice has been noticed in products, drugs and pharmaceuticals, soap and agricultural implements etc. The Committee are surprised that even though the Ministry have been aware of such a practice, they have taken no steps to protect the small sector from the harmful effects of such an unhealthy competition. The Committee would wish that the Minis-

try take steps to curb this unhealthy practice with a view to safeguarding in interests of the small scale units. (S. No. 84)

6.67. Reports of large units adopting a policy of undercutting the prices of small scale units to eliminate them from the market have also been received by the Committee. The Committee would expect the Ministry to examine this matter with a view to finding a satisfactory solution to the problem. (S. No. 85)

D. Sub-Contracting Exchanges

6.68. With a view to have effective linkages between small scale industries and the large and medium undertakings, Small Industries Development Organisation has established sub-contracting exchanges in the SISIs (Small Industries Service Institutes) spread all over the country.

6.69. Starting with three sub-contracting exchanges set up in 1970 with assistance of UNIDO, there are now 16 exchanges functioning. These sub-contracting exchanges are attached to the SISIs located at Bombay, Madras, Calcutta, New Delhi, Srinagar, Ludhiana, Kanpur, Patna, Gauhati, Cuttack, Indore, Ahmedabad, Jaipur, Hyderabad, Trichur and Bangalore. These sub-contracting exchanges are headed by senior officers and have Telex facilities and card indexing system for the dissemination of quick information to the units. The exchanges keep an upto-date bank on the details of capacities available in different small scale units in various processes of manufacture and also maintains a close liaison with the large units in identifying items which could be sub-contracted to small scale units. The main function assigned to the sub-contracting exchanges are:

- (i) To invite small scale units to register themselves with the exchanges with details of their installed capacity in different trades.
- (ii) To approach large industries to identify items which could be sub-contracted to small scale units.
- (iii) To render technical assistance to small units in creating new capacity for specific purposes or for manufacture of items/stores required by large undertakings.
- (iv) To furnish information to large undertakings about the capacity available in the small sector for different types of facilities and vice-versa.

6.70 Enquiries received from large undertakings are passed on to small scale units having capacity and facility for manufacturing the required products. The sub-contracting exchanges also arrange periodic buyers-sellers meets, product exhibitions and also conduct seminars to discuss problems facing the buyers and sellers.

Effectiveness of the Linkages

6.71. The sub-contracting exchanges are stated to have been found to be quite effective and are gaining considerable importance in establishing constant linkages between small scale units and large scale enterprises. The response to this facility is said to be encouraging as seen from the fact that the number of small units, registered with the exchanges have gone to 7464 upto 1978-79 and the cumulative total of cases where the small scale units were assisted by the exchange have risen from 11,071 during 1974-75 to 29,523 in 1979-80. In order to review the progress made by the exchanges, monthly reports on the quantum of purchases made by the large scale sector undertakings from the small scale sector units is obtained from the sub-contracting exchanges. During 1979-80, business worth about Rs. 33 crores was generated through the help of sub-contracting exchanges.

6.72. Giving the latest figures in evidence (January, 81) Secretary (Industry) stated that upto 1979-80, the total number of units registered with Exchanges had gone upto 8088 and the total number of cases assisted by the Exchanges were 30832.

6.73. The Committee desired to be furnished with a brief resume of concrete achievements of the exchanges since their being set up 1970. The Ministry have stated that the role assigned to sub-contracting exchanges is by and large, promotional and covers maintaining a data bank of facilities available with selected sub-contracting units registered by them. Sub-contracting exchanges contract the various purchasing organisations and put them in touch with competent small scale units who may be in a position to offer sub-contracting facilities to them. The exchanges, therefore, have no commercial operations to perform and at present provide only an important link between the large and medium sector organisations and the small scale sub-contracting units. Up to the year 1978-79, for which details are available, 7464 small scale sub-contracting units were registered by the various exchanges. While the details of various activities of the sub-contracting exchanges will need to be collected and compiled for the last 10 years an effort has been made to give in tabular form the performance of the sub-contracting exchanges during 1979-1980 (Table page 113).

6.74. On being asked about future programmes and targets, the Ministry have stated that in the type of promotional activities undertaken by the sub-contracting exchanges, it would be difficult to lay down any targets for financial achievements since the exchanges themselves do not take part in the transactions. However, under the Core Programme of the SIDO, certain targets for promotional activities to be undertaken by the sub-contracting exchanges are being laid down. For the year 1980-81, the Core-Programme for the sub-contracting exchanges lays down the following targets of promotional activities:

(1) Buyer-Seller Meets	16
(2) State-wise Seminar on Ancillary Development	24
(3) Ancillary State Level Committee Meetings	32

6.75. The attention of the Ministry was invited to the views of the non-official organisations that it was a tall claim for the sub-contracting exchanges to make that they generated business worth about Rs. 33 crores in 1979-80; that this was only a paper work and that there was no sub-contracting at all. The Ministry have stated that the role of the sub-contracting exchanges is at present confined to liaison activities and as can be expected in case of such activities, the results and achievements depend upon a number of variable factors. While the sub-contracting exchanges receive enquiries, process them and put the buyers and sellers together, the extent of ultimate business actually transacted depends upon availability of technical facilities to meet the exact requirements of the job specifications, availability of right type of raw materials at the time of receipt of the order, pricing and delivery schedules, etc. Within the limitations of staff, the Exchanges have been useful in creating awareness about the technical facilities available with the small scale units in different regions capable of taking sub-contracting orders. The figure of business generated through small sub-contracting exchanges is only an indicator of promotional contracts developed by them. The figure, when viewed against the overall sub-contracting figures from small sector to the large and medium sectors of the industry running to several hundred crores, would be a small contribution made by the exchanges. Actual figures of business generated through the contracts promoted by the sub-contracting exchanges would be difficult to compile since in a number of cases the feedback is not available in time. However, the sub-contracting exchanges are being asked to follow up such cases to obtain maximum information from their beneficiaries.

6.76. Information relating to the business introduced through the sub-contracting exchanges in 1979-80 is given in the Table below:—

Statement showing the business effected through sub-contracting exchanges for 1979-80

SISI	Extent of Business handled by sub-contracting exchange.	No. of tieups effected
	(Rs. lakhs)	
1. Ahmedabad	28.75	121
2. Bangalore	169.47	107
3. Bombay	125.00	1294
4. Calcutta	1800.00	420
5. Cuttack	2.50	40
6. Gauhati	328.00	34
7. Hyderabad	80.00	137
8. Indore	28.00	60
9. Jaipur
10. Kanpur	624.00	3
11. Ludhiana	21.00	33
12. Madras	0.44	97
13. New Delhi	13.78	124
14. Patna	0.38	2
15. Srinagar
16. Trichur	91.49	421
	3314.71	2893

Note: *Source of Information:* Evaluation reports sent by SISs to O & M Section.

6.77. On the question whether the objective for which the sub-contracting exchanges had been set up have been fulfilled, the representative of the Ministry of Industry stated:—

“I would not say that these have been fully realised because basically it depends on the enquiries that we receive from the industries. If we get more enquiries and if those units would like to have some components made by small industries, they can come to the exchange. We can put the units which can make components in touch with the large units”.

6.78. With a view to evolving effective linkages between small scale units and large and medium undertakings, the Small Industries Development Organisation have set up sub-contracting exchanges in the SISIs spread all over the country. Starting with three exchanges in 1970, there are now 16 exchanges functioning in

the country which maintain data bank of facilities available with sub-contracting units registering with them whom they put in touch with purchasing organisations.

6.79. During 1979-80, in Jaipur and Srinagar no tie-up whatsoever was effected through the efforts of the sub-contracting exchanges there; and in Patna and Madras, business worth only Rs. 38,000 and Rs. 44,000 was handled by the exchanges. The business handled by exchanges at a number of other places was not very encouraging either. The registration of only 8100 units with all the exchanges during a ten-year period 1970—80 out of nearly 8 lakh small scale units in the country and assistance rendered in only 30,000 cases all over India during this period and the business handled by individual exchanges during 1979-80 lead only to one conclusion that the performance of sub-contracting exchanges is poor. (S. No. 86)

6.80. Though monthly reports on their working are submitted by sub-contracting exchanges to the Ministry, the Ministry were unable to furnish a resume of concrete achievements of these exchanges during the last 10 years in response to a specific question by the Committee. No targets for financial achievements had been laid down. In 1980-81, for the first time perhaps, targets of promotional activities have been set. There is no feed-back information collected by the exchanges with reference to the contacts arranged through these exchanges. Secretary (Industry) himself admitted during evidence that objectives for which these exchanges were set up have not been "fully realised". What else can the Committee conclude from all this except that the sub-contracting exchanges have been working in a lackadaisical, unimaginative and unsystematic manner and the Ministry seem to have done nothing in the matter during the last 10 years. The Committee recommend that the system and methods of working of the sub-contracting exchanges which have a tremendous potential of rendering valuable service to the small scale units, should be streamlined and made result and growth oriented and their performance evaluated against targets every year and remedial measures taken to make them fulfil the objectives for which they were set up. (S. No. 87)

6.81. The Ministry claimed that "during 1979-80 business worth about Rs. 33 crores was generated through the help of sub-contracting exchanges". This claim was challenged by non-official organisations. When it was brought to the Ministry's notice, the Ministry explained that the figure of business generated through sub-contracting exchanges is only an indicator of "promotional con-

tracts" developed by them; the actual figures of the business generated through the contacts promoted by these exchanges would be "difficult to compile". From the subsequent explanation of the Ministry, it is obvious that the original claim of generating business worth Rs. 33 crores through these exchanges was without any basis and irresponsible. It amounted to giving misleading information to the Committee which the Committee cannot too strongly condemn. They would like the matter to be investigated and the outcome of the investigation communicated to the Committee within six months.

(S. No. 88)

E. International sub-contracting exchange

6.82. The Committee have been informed (December, 1980) that about two years back, a UNIDO expert had reviewed the functioning of the sub-contracting exchanges and made recommendations about the establishment of an International sub-contracting exchange. The main objective of the proposed International sub-contracting exchange was to promote international sub-contracting arrangements between the large organisations abroad and competent small scale sub-contracting units in India. For this purpose, the functions of the International Sub-Contracting Exchange covered collection and dissemination of relevant trade information in different areas of sub-contracting, registration of competent export-worthy small scale units, processing international trade enquiries, arranging buyer-seller contracts, identifying input requirements of small scale sub-contractors, etc. The International sub-contracting Exchange was also expected to coordinate and oversee the activities of the 16 exchanges already set up.

6.83. The Ministry have stated that the scheme is still under consideration. Government are alternatively considering using the sub-contracting exchanges located in places like Delhi, Bombay, Madras and Calcutta to undertake the job of locating international buyers for the products of the small-scale sector in the country.

6.84. During evidence (January, 1981) the Secretary, Industry informed the Committee that the final decision had not yet been taken. The Government were considering whether an international sub-contract agency without the back up support of such regional agencies would be all right. For example, if there was an international sub-contracting agency in Delhi and if some foreign buyer wanted a particular supply, it had to be seen whether one agency would be able to have information with regard to 500,000 small scale units dispersed all over the country to give such information or be

able to link that buyer with the manufacturer of that particular produce. He added that Government should be able to take decision in the matter possibly in the course of the next three months.

6.85. Secretary, Industry added that "if the international sub-contracting agency have got to function, it has to have the back-up of 4 or 5 regional centres". In his view "one agency will not be adequate. We are in the process of taking a decision about the regional centres and others".

6.86. The Committee note that a proposal for the setting up an international sub-contracting exchange in India has been under consideration of the Government for the last two years. The main objective of the exchange will be to promote international sub-contracting arrangements between large organisations abroad and competent small scale contracting units in India. While the Committee welcome this proposal, they are unable to appreciate why the proposal could not be materialised during the last two years. The Committee would like that the idea of an international sub-contracting exchange backed up by adequate number of regional exchanges should be translated into action without delay. The Committee hope that while setting up the international exchange and regional exchanges, the Ministry would guard against the drawbacks noticed in the working of sub-contracting exchanges already working in India and would ensure that the international exchange follows the most modern system of management and operations and develops into a useful instrument of service to the small scale sector.

• • • • •

(S. No. 89)

CHAPTER VII

RESERVATION OF ITEMS FOR EXCLUSIVE PRODUCTION

7.1. The Ministry of Industry have informed the Committee that it is the declared policy of the Government that whatever can be produced in the small scale sector must be so produced. The policy of reserving items for production in the small scale sector is intended primarily as a protective measure against competition from units in the large and medium scale sector.

7.2. So far 834 products have been reserved for exclusive production in the small scale sector.

A. Intrusions by large sector in fields of small sector

7.3. A number of representations have been made to the Committee that large units are intruding into the fields of production exclusively reserved for small scale sector.

7.4. The Ministry have stated that Government's policy has always been not to permit the entry of the organised sector into the production of items reserved for the small scale sector. In the case of units which were already producing items on the date of reservation of that item for small scale sector, capacity of such organised sector units i.e., non-small scale sector, are frozen at levels of production authorised to such organised sector units as on the date of reservation. No expansion in capacity is, thereafter permitted. Whenever complaints of infringement of this policy are received by Government, the matter is looked into for appropriate action. In the new Industrial Policy Statement, Government have taken care to ensure that there is no adverse effect on the small scale sector in respect of reserved items.

7.5. The Ministry have added that the items like tooth-paste, tooth powder, laundry soap and cycle tyres and tubes are reserved which are being manufactured by multinational and large scale units also. Representations regarding organised sector units producing tooth-paste in excess of their licensed capacity have been received. This item, i.e., the tooth-paste was reserved for exclusive production in the small scale sector in February 1970. Since then, the 9 organised sector units with total approved capacity of 3927 M.T.s have increased their production to 9400 M.T.s by the

end of 1978. In the small-scale sector as against the installed capacity of about 4,700 M.T. in 9 small scale sector units, the production in 1978 was about 740 M. Tons.

7.6. The Committee were informed during evidence that complaints regarding excess production by large/medium sectors have been received in respect of certain other reserved item also other than tooth-paste. The Ministry have added that subsequent to the reservation, the task of endorsing capacities on the licences of the large manufacturers has been completed. Accordingly, the organised sector units have to bring down their production to the level of the capacity endorsed. This is being pursued.

7.7. Secretary (Industry) explained during evidence that when section 10 (of the IDR Act) was introduced, the large scale units producing items reserved for the small sector were required to get registration certificate and their capacity was to be endorsed. The policy which had been followed by Government was to freeze their capacity to their production in a particular year.

7.8. As far as legal position was concerned the Secretary stated that the violation of licence conditions would take place if capacity was increased or if a person produced in excess of capacity. It was possible to increase production by technological innovation by adopting better manufacturing practices etc. According to the large sector if production was more than capacity, that was not an offence. To increase capacity was an offence.

7.9. When asked to suggest a way out of this difficulty, Secretary, stated that the Act would have to be amended in a suitable manner to enable the Government to take action against excess production as against increase of capacity. He stated that the Ministry was in favour of amending the Act. This matter, he said, was under consideration.

B. Captive Capacity

7.10. When the attention of the Ministry was invited to the complaints about manufacture of items like tin containers, barrels, drums and drum closures (which were claimed to be reserved items and which, it was stated used to be purchased by large units from small scale sector) by large units including Vanaspati manufacturer and Indian Oil Corporation, the Ministry have informed the Committee that the containers unprinted—other than OTS and cans upto 18 litres capacity, barrels and drums up to 60 litre capacity, are reserved for exclusive production in the small-scale sector.

Vanaspati Oil manufacturers have been allowed captive capacity for manufacture of tin containers as per policy of the Government. So far as drum closures are concerned, these are not reserved for exclusive production in the small-scale sector. Therefore, these as well as the types and sizes of tin containers and drums and barrels not reserved for small-scale sector are open for licensing.

7.11. When asked in evidence if it was permissible for large units to set up captive capacity in those fields which were exclusively reserved for small scale sector, Secretary (Industry) explained that in certain industries items which were meant for commercial production had been permitted; there was no question of any violation in such a case.

7.12. The Committee wanted to know whether the capacities now endorsed were less than the production level reached as on the date of reservation or whether these were only less than the capacities originally licensed. Secretary stated that while the endorsement capacity was very much there in such case it was possible that the production might be higher than the capacity endorsed but it did not happen generally.

7.13. In a note furnished to the Committee subsequently elaborating the position as regards intrusions into reserved areas by large and medium units, it has been stated by the Ministry that the policy in regard to production by large and medium units of items reserved for the small scale sector has two parts:

- (a) from the date of reservation for production of the small scale sector, no new capacity is either licensed or registered;
- (b) in respect of reservation capacity pre-existing in the large or medium sector, production levels in such units are pegged in the light of definite criteria.

7.14. These criteria stipulate that pre-existing units would have their productive capacity determined with reference to their best three years' production achieved prior to the date of reservation or 29th August, 1973, whichever is earlier.

7.15. This is subject further to the following two conditions:—

- (i) No undertaking should exceed maximum production levels achieved prior to 31st December, 1973, and, where an undertaking is producing in excess of capacity as determined above, it should bring down its production to the registered capacity as endorsed on the Registration Certificate within a period of 2 years from 1-1-1979.

- (ii) If the undertaking agrees to buy and market same or similar products of small scale industries, its capacity determined according to the above criteria will be enhanced to that extent. If the actual production exceeds the enhanced capacity as determined above, the undertaking will have to bring down its actual production to the level of such enhanced capacity within a period of two years from 1-1-1979. There are 834 items reserved for production in the small scale sector. There would be a large number of units producing such items prior to the date of reservation outside the small scale sector.

7.16. From the information furnished by the Ministry it is seen that in the following items, which are now reserved for development in the small scale sector, forty-one large companies are licensed for the manufacture of these items: Radiators; Oil seals; Hydraulic Jacks; Leaf Springs; Head lamps, Footwear; Leather Goods and Leather Garments; Shoe uppers; Industrial Gloves; Bench Grinders; Simple Core Pulley Driven Lathes; Hacksaw Machines.

7.17. The Ministry have stated that it would, thus, be seen that production of reserved items by units outside the small scale sector does not *per se* constitute an intrusion into the field reserved for the small scale sector. A few cases have, however, come to the notice of Government where it has been alleged that some large and medium sector units are producing reserved items in excess of capacity endorsed on their licences/registration certificates. Some such recent complaints relate to manufacture of laundry soap, sodium silicate, tooth paste, tin containers, paper conversion products, dye stuffs and gummed stamp papers. These complaints have been attended to and remedial action within the present frame-work of law has been taken in cases, wherever the allegations have been found to be substantiated.

7.18. The Ministry have stated that excess of licensed capacity or unauthorised production therefrom is an offence under the I(D&R) Act, attracting the penal provisions contained in Section 24 of the Act. The specific cases of excess capacity are required to be examined on merits by the administrative ministries concerned keeping in view the provisions of the I(D&R) Act.

7.19. The Ministry are of the view that amendment of the I(D&R) Act is necessary to plug some legal loopholes, particularly where industrial undertakings claim that capacity exceeding that

authorised higher production arises due to more efficient use of installed capacity. Unless a specific violation of the licensed capacity (as distinct from 'production' stipulation can be unequivocally established before the Law Courts, it becomes difficult to launch successful prosecution. Legal opinion taken by Government has also ascertained (in several cases) that there may not exist a sufficient basis for a prosecution, due to infirmities in the present Act.

C. Export Obligation

7.20. It has, been represented to the Committee that "reservation" of an item for small scale sector does not restrict the manufacture of the reserved item for export by large sector which after some time can say that they could not export it and as such they would sell their product in the domestic market.

7.21. The Ministry have stated that the items for small scale industries are reserved after due examination by the Standing Committee on Reserved Items. When an item is reserved for small scale sector, no medium or large scale unit is registered or licenced for the manufacture of that item. However, a request for expansion in the manufacturing from the existing medium/large units is entertained in areas reserved for small scale sector with an export obligation of 95—100 per cent. Export obligations imposed on large scale units are monitored by the CCI&E. It has been stated that there may be some possibility of selling reserved item by the medium or large scale units which was basically meant for export. Where complaints from the small scale units are received, these are looked into by the Government for appropriate action.

7.22. The Secretary (Industry) stated during evidence that there was a classified framework of undertakings which these units have to give. These include bank guarantee on the basis of 5 year's production, penalty, expropriation of excess production which should have been exported but could not be exported. The Chief Controller of exports and imports was required to monitor the performance of export obligation and take action in cases of default under the law. He informed the Committee that complaints had been received in this connection in the case of tissue paper, hydraulic jack, bolts, screws and duplicators. He added that in respect of tissue paper the action was taken and the particular unit was asked not to continue production. Export obligation was scrutinised and revised obligation was imposed.

D. State Agencies Entering into Competition with SS. Units

7.23. It has been represented that the State Governments have set up their own units under various corporations to manufacture products already being produced by private Small Scale Units. The State Governments are entering into competition with the SSI Units to great detriment of the latter.

7.24. In this connection the Ministry have stated that the State Enterprises normally should not enter into the areas where small scale units are already in operation. There may be, however, some exceptions in view of the special developmental needs of certain areas (e.g. hilly and backward areas). Some of the State Governments like those of Jammu & Kashmir and Tamil Nadu have been pressing that State Corporations should be allowed to manufacture items that are reserved for production in the small scale sector.

7.25. Secretary (Industry) stated during evidence that no State Corporation had set up any unit after the reservation had been done for the small scale sector. It was possible that a State Corporation might already be engaged in production of an item which was subsequently reserved.

7.26 While no such request was stated to have been received from Tamil Nadu requests had been received from Jammu & Kashmir and a State in the North-Eastern region to set up industries in reserved items as no initiatives were forthcoming from the small scale entrepreneurs to produce items reserved for them. There was no question of competition by State Governments with SS units. All that they wanted was as a measure of promotion of industries. An exception should be made to allow the State agencies to set up units to produce items which were reserved for the small sector.

7.27 In pursuance of Government policy to produce in small scale sector whatever can be so produced, 834 products have been reserved for exclusive production in small scale sector. In the case of large units producing such items prior to the date of reservation, capacity of such units was frozen as on the date of reservation according to a prescribed formula. No new licence or expansion has been permitted thereafter. In other words, though products have been reserved for exclusive production in small sector, in actual practice, the 'reservation' did not give them any immediate advantage as large sector was allowed to continue production at the same level as on the date of reservation and thus prevent the small scale sector from increasing production to meet the then existing market

demand; this approach, at best, gave them a prospect of increasing production of those items to meet the future growth in demand.

7.28 The Committee think the reservation policy as now followed would not do small scale sector much good in the immediate future unless the production of reserved products in large sector is reduced especially in areas where much technology is not needed. The Committee are aware of the legal hurdles in this respect but these will have to be overcome if reservation policy has to be made a success. The Committee would like the Government to examine this matter with a view to arming themselves with powers to tilt decisively the production balance in favour of small scale sector, wherever possible, keeping in mind the capacity and quality of production in small sector vis-a-vis the demand. (S. No. 90)

7.29 Items like tooth paste, laundry soap and cycle tyres and tubes are 'reserved' items which are being produced by multinationals and large units also. There are many other reserved items which were licensed for production in large sector prior to reservation. Since 1970, when tooth paste, for instance, was reserved for exclusive production in small scale sector, 9 organised sector units with total approved capacity of 3927 M.Ts had increased their production to 9400 M.Ts by the end of 1978. On the other hand, in the small scale sector, as against the installed capacity of about 4700 M.Ts in 9 small scale units, the production of tooth paste in 1978 was only about 740 M. Tons. If there have been loopholes in the Industries (D&R) Act, as the Ministry seem to hint, which allow large industries to produce more than the authorised capacity on the plea of more efficient use of installed capacity, the Ministry have not explained why they have allowed the loopholes to continue so long to the detriment of small scale sector. It is rather difficult to accept that increase of production of tooth paste to 9400 MTs as against an installed capacity of 3927 MTs in large sector could be due only to more efficient use of installed capacity as hinted by the industry. There are complaints of excess production in large sector in respect of a number of other reserved items also.

7.30. The Committee would like the Ministry of Industry to go into the complaints of excess production of reserved items by large/medium sector and furnish the following information:—

- (a) List of items in which excess production has been complained of whether any inquiry was held and if so, the outcome of enquiry, in each case:

- (b) the action taken in each case of established 'excess' production and the outcome;
- (c) Loopholes in the Industries (D&R) Act, efforts made by the Ministry to plug the loopholes with dates and the outcome;
- (d) the latest thinking of the Government in the matter.

7.31. The Committee would like to have specified information under these heads, item-wise, to judge the role and performance of the Ministry in protecting the small scale sector against the encroachments of large/medium enterprises into the field of reserved' items. (S. No. 91)

7.30. The Committee have received reports that large units licensed to produce 'reserved' items for export can also sell their products in home market on the plea of their inability to export their full production. The Ministry have admitted that though the possibility of such a misuse of the concession is there, Government have taken measures like bank guarantee, penalty provision, expropriation of excess production etc. to guard against such a misuse by large units. Complaints of misuse of this concession have been received by the Ministry in respect of tissue paper, hydraulic jack, bolts, screws and duplicators. Secretary (Industry) informed the Committee during evidence that in the case of tissue paper, "action was taken and the particular unit was asked not to continue production. Export obligation was scrutinised and revised obligation was imposed". It is a moot point whether the aforesaid action taken by Government could actually be called 'action' at all. The Committee would like the Government to deal with cases of violation of export obligations by large units in respect of 'reserved' items more stringently in order to save the small scale sector from such surreptitious attempts of the large units to out-market the former. (S. No. 92)

7.33. The Committee are informed by the Ministry that captive capacity for manufacture of 'reserved' items by large units has been allowed by the Government. For example, vanaspati oil manufacturers have been allowed to manufacture tin containers—a 'reserved' item—which earlier the large units used to purchase from small scale sector. The Committee do not agree with this policy. This amounts to denial of benefit of reservation policy to small scale sector. In fact it is in such fields that ancillarisation has a role to

play. The Committee would like the Government to re-examine this matter with a view to withdrawing captive capacity in large/medium units for manufacture of 'reserved' item. (S. No. 98)

7.34. The Committee take note of the apprehensions of the small scale sector about State Governments setting up industrial units for production of 'reserved' items. They also take note of the position explained by the Ministry that no State Corporation has set up any unit to produce reserved item after 'reservation' had been made, though requests from some State Governments have been received to set up production capacity in certain lines reserved for small scale sector where no initiatives were forthcoming from small scale units. The Committee agree that State Governments should not be barred from setting up production capacity in 'reserved' items if no small scale entrepreneur comes forward to set up industrial units in those lines. (S. No. 94)

CHAPTER VII

PURCHASE PREFERENCE

8.1. The purchase policy pursued by the Government has a vital bearing on the development of the small scale sector because Government is the largest single buyer. In this regard DGS&D continues to implement the policy of purchase preference to the small scale units. With a view to give encouragement to small scale units for larger participation in Government purchases, the Deptt. of Supply in consultation with the Ministry of Industry have set apart 379 items of stores for exclusive purchase from the small scale sector. Besides, 11 items have been reserved for exclusive purchase to the extent of 75 per cent of the requirements from the small scale sector and another 15 items have been reserved for exclusive purchase from small scale sector to the extent of 50 per cent.

8.2. Ministry of Industry submitted a proposal to the Cabinet that there should be a uniform policy for purchase and price preference to small scale sector by all the departments of Government of India including public sector undertakings, State Government departments and State Undertakings, etc. The Cabinet in its meeting held on 7th September, 1979, approved the proposal of the Ministry of Industry, according to which the list of Items reserved for exclusive purchase from small scale sector should be kept under review in order to bring in additional items as and when justified; there should also be a purchase reservation list in respect of items of the small scale sector to the extent of 75 per cent and 50 per cent of Government Purchase where 100 per cent reservation is not possible; that list of items not included in three lists of preferential purchase but included in the list of items reserved for production in the small scale sector should be given price preference subject to the ceiling of 15 per cent and a list of items may also be drawn up for exclusive purchase from village and cottage industries.

Total Value of purchases made by DGS&D from Small Scale Sector and Other Sectors

8.3. The table below gives the total value of purchases made by DGS&D from small scale sector and other sectors during 1975-76 to 1979-80:—

Value in crores Rs.

Period	Total Indigenous purchases made by DGS&D	large Scale Sector	Share of SS Sector	%Share of SSI sector of Indigenous
1975-76	991.70	897.60	94.10	9.48
1976-77	975.16	868.69	106.47	10.91
1977-78	851.17	735.77	115.40	13.56
1978-79	886.97	772.93	114.04	12.86
1979-80 (Prov.)	964.86	843.07	121.79	12.62

8.4. It would be seen from the Table above that the share of purchases made from Small Scale Sector comes to about 12-13 per cent of the total indigenous purchases made through DGS&D.

8.5. However, the Secretary (Industry) informed the Committee during evidence that the Ministry had done qualitative analysis of the figures given in the aforesaid table and after excluding from the table the value of purchase made of those items which are not produced in the small scale sector, the percentage of purchases made for the small scale sector came to 41 per cent and not 12 per cent. He added that this 41 per cent share was significantly higher than the share of small industries to national purchases which was around 30 per cent.

8.6. There are 379 items reserved from exclusive purchase from small scale sector. The Committee wanted to be furnished with a statement showing the value of purchases made by DGS&D from the large/medium and small scale units from out of the list of items exclusively reserved for purchase from small scale sector, during the last 5 years. This information is still awaited.

8.7. The Committee also wanted information regarding purchases made for Railways from small scale sector.

8.8. As regards Railways, the Ministry stated that the Director (Railway Stores), Ministry of Railways had been requested to provide information in respect of purchases from small scale sector and other sectors. This information also has not been received so far.

8.9. In addition to the purchases made by the Director (Railway Stores), Ministry of Railways from the Small Scale Sector DGS&D also makes purchases on behalf of the Railways. A statement showing value of orders placed by DGS&D on behalf of Railways during 1975-76 to 1979-80 (Prov.) classified by source of manufacture is given below:—

(Value in crores Rs.)

Year	Cottage and SSI	Large Scale Indus	Imported	Total
1975-76	18.36	213.97	1.41	233.74
1976-77*	15.23	155.02	0.19	170.44
1977-78	12.34	132.99	0.19	145.52
1978-79	17.58	147.72	0.27	165.57
1979-80 (Prov.)	17.96	159.14	0.13	177.23

8.10. As will be seen from the above Table during 1979-80, purchases made from Cottage and Small Scale Sector by DGS&D on behalf of Railways amounted to about 10 per cent.

8.11. The Committee wanted to be furnished with information about purchases made by the State Governments from the Small Scale and other sectors during the last 5 years, State-wise.

8.12. The Ministry have stated that the information is not readily available and is being collected from various State Governments etc. The Committee have been informed that at present there is no system under which the information in respect of the purchases made by various organisations from small scale sector is being compiled by the State Governments.

A. Exclusive Purchase Policy

8.13. In regard to the implementation of the policy of Government for exclusive purchase from small scale industries a number of problems have been brought to the notice of the Committee. These are:—

- (i) Purchasing agencies try to find some fault or the other to avoid purchases of the specified items from such units.
- (ii) Certain State Government Departments are insisting on earnest money and security deposit even though tendering firms are registered with the DGS&D and National Small Industries Corporation.
- (iii) In some tenders floated by the DGS&D a brand name and a manufacturers Catalogue Part number are given instead of specifications of the required goods. Floating of such tenders for items with brand names does not help small scale units.

8.14. The following drawbacks in the implementation of the policy of exclusive purchase from small sector have also been brought to Committee's notice:—

1. too little time to submit tenders;
2. lack of readily available specifications;
3. specifications normally drawn on the basis of one large supplier;
4. short delivery due for large quantities; and
5. unreasonable requirement of performance bond.

8.15. It has been represented to the Committee that due to these problems, the policy of reservations really has been less effective in the Indian context. If some of the above problems can be reduced, the effectiveness of the policy will be more.

8.16. The Ministry have stated that the Government have reserved as many as 379 items for exclusive purchase from small scale sector. Small Industries Development Organisation has not received the complaints against the purchasing agency trying to find some fault or the other to avoid purchases of the specified items. It has, however, received representations from individual small units as well as voluntary organisations regarding certain State Government Departments e.g. State Electricity Boards insisting on earnest

money and security deposit even though tendering firms are registered with NSIC and DGS&D.

8.17. In this connection, it has been pointed out that the various State Governments have got their own purchase programmes and policies for according preference to small units located in their areas. Small Industries Development Organisation as well as Ministry of Industry have, however, been trying to persuade the various State Governments to follow the policies and facilities provided by DGS&D to the small scale industries. Ministry of Industry had written to DGS&D that the purchasing organisations should not insist on the purchase of specific brands.

8.18. As regards other drawbacks, it has been stated that the problems seem to be more individual than general. However, the Small Industries Development Organisation and National Small Industries Corporation have been in recent years, making constant efforts to maintain effective liaison with DGS&D in order to overcome these problems.

8.19. As regards purchase targets during the next five years, the Ministry have stated that the purchases made by DGS&D from small scale sector during 1979-80 were about Rs. 121.79 crores. It may be difficult to indicate any targets for purchases to be made by DGS&D from small scale sector in the next five years but during the current year (1980-81) itself, a substantial increase upto Rs. 200 crores is being aimed at. However, the purchases made by DGS&D depend upon the indents placed by the various purchasing departments of the Ministries and departments of the Government of India.

8.20. The Committee wanted to know as to which State Government Departments or State Government bodies were reported to be insisting on earnest money and security deposits from centrally registered units and what had been the response from the State Government Departments/Undertakings whom the Ministry of Industry had approached in this regard.

8.21. The Chairman, National Small Industries Corporation informed the Committee during evidence (Jan., 1981) that a small scale units registered with them under single point registration scheme was not required to furnish security for purposes of contract. The Governments of West Bengal, Uttar Pradesh, Bihar, Maharashtra, Himachal Pradesh, Haryana, Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Rajasthan, he stated, have all confirmed

that their Government Departments had been advised to follow the same procedure as followed by DGS&D in the matter of extending facilities of earnest money etc. He added that it had not been possible to get confirmation from all the autonomous corporations in the States like the State Transport Corporations and State Electricity Boards. In the case of Uttar Pradesh the State Road Corporations and the Housing Board have informed that they were following their own registration procedure. Certain Small Industries Corporations have laid down procedure for security deposit for orders beyond 25,000. The Punjab State Electricity Board is also following its own procedure for registration.

8.22. The witness stated that efforts were being made to collect information from more institutions in this regard. He added that the Central Government had advised all State Governments to follow the same procedure. Liaison with the State authorities was also being established to persuade all the State Governments to follow the procedure. The matter would also be taken up for discussion at the conference of State Ministers of Industries scheduled to be held in Delhi shortly. He stated that as a result of these efforts more State Governments had accepted this policy and issued instructions accordingly.

8.23. He added that the National Small Industries Corporations had not come across any such case where brand name was insisted upon.

Although single point registration has been accepted as a welcome system it been represented to the Committee that:—

1. in many cases the recommendations of the SISIs who are designated as inspecting authorities by NSIC for the issue of Single Point registration certificates have not been implemented resulting in frustration among small entrepreneurs.
2. DGS&D insists on avoidable additional inspection without justified reasons. DGS&D therefore should issue necessary guidelines in this behalf.
3. Director of SISI should be empowered to issue single point registration.

8.24. SIDO as well as NSIC are reported have sometimes taken up these matters with DGS&D and other organisations.

8.25. The Ministry of Industry have stated that Single Point Registration was introduced with effect from 1-5-1976 in order to avoid the problem of multiple registration as also to bring about the uniformity in the policy and procedure. Under this procedure, the registration is done by National Small Industries Corporation and units registered with it are automatically considered registered with the DGS&D. The registration with NSIC is also valid for suppliers to Railways, Bureau of Public Enterprises, Defence, P&T and other departments of Central Government. The scheme of Single Point Registration is valid for all the offices of DGS&D and other Central Government organisations in different States. It has also been recommended to State Governments that the units registered under the single Point Registration of NSIC should be considered eligible for preference and facilities under the State Purchase Programme and they should not be required to register with them separately.

8.26. Under the procedure for registration, Small Industries Service Institutes have to make an assessment of the technical facilities available with the concerned unit and its capacity to produce various items both in terms of quantity and quality.

8.27. The Ministry have added that in regard to the procedure for inspection of safety and difficult items, the matter was taken up with the DGS&D and it was decided that even in respect of safety/difficult items, National Small Industries Corporation will enlist the units on the basis of the recommendation of the Small Industries Service Institutes. The Directorate General, Supplies and Disposal may refer the case to their Inspectorate wherever they find it necessary. As a result of this arrangement, the problem of double inspection has been considerably reduced. It is only in case of items like drugs and pharmaceuticals and paints (for Railways) that inspection has to be carried out by other agencies i.e., Drugs Controller and RDSO (Research, Design and Standards Organisation).

8.28. The Ministry of Industry have, however, suggested that DGS&D should, issue necessary guidelines in respect of various critical items indicating the standards and technical requirements which may be kept in view by Small Industries Service Institutes. Once the report has been given by the Institute, it should not normally be subjected to a second inspection. As regards the delegation of authority to small Industries Service Institutes to issue Single Point Registration, it has been stated that SISIs, primarily, give technical report and other aspects including the financial ones

are to be assessed by banks and other organisations. Since NSIC has its own Regional Offices in different parts of the country, the power of registration may be delegated to them.

8.29. The representative of the DGS&D informed the Committee during evidence that since 1976 the practice of a Single Point Registration to be undertaken by NSIC is in vogue. If a small scale unit is registered under 'Single Point', the inspection is done only once. There is no dual inspection in such cases.

Bill Escalation clause

8.30. The Ministry of Industry have informed that small scale units have represented that the contracts entered into by DGS&D should also provide for escalation clause so that small scale industries do not suffer on account of rise in prices of raw materials like Steel, aluminium, and petroleum products etc. The Ministry have Steel, aluminium, and petroleum products etc. The Ministry have up these matters with DGS&D and other organisations.

8.31. The representative of DGS&D informed the Committee during evidence that since 1980 price variation clause was considered for the items where the prices are controlled by Government, such as Steel, non-ferrous materials etc. Government would prefer to have a fixed price contract, but if the unit asks for price variation in respect of the items controlled by the Government, those items would be considered. He informed the Committee that the Small Scale units were being treated at par with large sector in regard to price escalation clause.

B. Purchase Advisory Committee

8.32. In regard to the draw backs pointed out by small scale industries in the purchase system by Government Organisations, the Ministry have stated that a Central Purchase Advisory Committee at the Central level and similar Committees at the State level meet periodically to review the problems faced by the small industries.

8.33. The Ministry have informed the Committee that during the last five years, the Central Purchase Advisory Council met only once, on 21-11-1980.

8.34. The Regional Purchase Advisory Councils have been meeting once in each zone every year.

C. Price preference

8.35. It has been represented to the Committee that generally speaking the provision of 15 per cent price preference to small scale industries was only a myth and implemented only in a very few cases. The Ministry has stated (WR 95) that the Development Commissioner (Small Scale Industries) through its network of Small Industries Service Institutes watches the implementation of the Price Preference Policy in the States. It has, however, not been possible to monitor the programme effectively because there is no regular and continuous flow of information regarding price preference accorded by the various purchasing organisations at the Central and State levels. On being asked whether any study had been carried out on implementation of price preference policy, the Ministry have stated that though there has not been so far any detailed study on the implementation of the price preference policy, for the data that was collected from the DGS&D, it was, however, found that price preference accorded to small scale units during 1978-79 worked out to little more than Rs. 1 lakh only. The Ministry have conceded that it would be desirable to undertake such a study.

8.36. The Secretary Industry pointed out during evidence that 15 per cent price preference just did not apply to the items included in the (i) list of 379 items reserved for exclusive purchase from small scale sector (ii) list of 11 items where 75 per cent is to be purchased from small sector or (iii) list of 15 items where 50 per cent has to be purchased from the small scale sector. This is because they are produced in the Small Scale Sector. This price preference would apply to the balance of items which are reserved from scale sector and which do not figure in the other three lists. Therefore, it was not correct to relate volume of preference in terms of money given to the operation of price preference policy.

8.37. On the question of need for evolving a mechanism with a view to ensuring a regular and continuous flow of information regarding price preference accorded to small scale units by the various purchasing organisations at the Central and State levels Secretary (Industry) informed the Committee that:

“The DGS&D has to furnish quarterly report about the price preferences which have been actually given in terms of Government policy to the Standing Review Committee. Therefore, there is an organised basis of flow of information.”

8.38. He assured the Committee that as far as the Central purchases were concerned the price preference policy was being implemented strictly in terms of Government policy.

8.39. As regards the State Governments, the Secretary, stated that some of the State Governments had not implemented the price preference policy in toto.

8.40. It is seen earlier that the price preference accorded to small scale industries in purchase made by Central Government through DGS&D works out to a little more than Rs. 1 lakh. When asked to state the value of purchases made through DGS&D under this scheme each year during the last 3 years and how does it compare with the total purchase made in respect of it which could be purchased from small scale industries, the Ministry have stated in a post evidence note that as price preference is accorded on individual tenders, it has not been possible to get from DGS&D the information for the last three years. On the basis of information that is available with the Development Commissioner (Small Scale Industries) from the returns received from DGS&D the price preference allowed during 1978-79 was Rs. 1,12,873 and during 1979-80 (April—December, 1979) work out Rs. 31,185 only.

8.41. The Committee wanted to know as to which are the States that have not accepted and implemented the price preference policy of the Central Government in regard to purchasing their requirements from small scale industries and why.

8.42. In a post evidence reply the Ministry have stated that most of the States grant price preference to products of small scale industries over large and medium industries. The price preference is however generally accorded to small units located in their own States. The extent of price preference varies from State to State.

8.43. The Committee are informed that, with a view to encouraging small scale units for larger participation in Government purchases, 379 items of stores have been set apart for exclusive purchase from the small scale sector, 11 items for exclusive purchase from this sector to the extent of 75 per cent of the requirements and 15 per cent items to the extent of 50 per cent. The Committee find that as against Small Scale Sector's contribution of 32 per cent to the national product in 1979-80, this sector's share in value of purchases made by DGS&D for Government Department was only 12.62 per cent. In fact the percentage share has declined

to this level from 13.56 per cent in 1977-78. Giving qualitative analysis of the Government purchases Secretary (Industry) stated that, if the items which were not produced in small sector were excluded, the percentage of purchases from small scale sector would come to 41 per cent and not 12 per cent. This analysis too shows that of the goods, which were available for purchase from small sector, only 41 per cent were actually purchased from this sector.

8.44. The Committee feel that instead of getting consolation from qualitative analysis of purchases from small sector, the correct approach would be to determine the optimum range and quantity of goods which the Government can buy from small scale sector and then to buy them from this sector and not from large sector. The Committee would like the Ministry of Industry to make such a study in cooperation with DGS&D and persuade the purchasing agencies at the Centre and the States to adopt this approach in all their purchases. (S. No. 95)

8.45. The Committee regret to note that there is no system at present in the Ministry of Industry to compile information about value of purchases made by Railways and State Governments from small scale sector. Information about purchases made by Central Government purchasing organisations from small and other sectors of items reserved for exclusive and preferential purchase from small sector is also not available with the Ministry or DGS&D. In order to evaluate the progress of measures taken by Government to encourage large participation by small scale sector in Government purchase programmes, there is an imperative need for a proper information system which should, inter alia, collect and collate data about the value of purchases made by all purchasing organisations of Central and State Governments and Public Sector Undertakings from Small Scale Sector vis-a-vis other sectors, showing separately the value of items exclusively reserved for (a) purchase from and (b) production in small scale sector. The information thus collected should be periodically analysed with a view to applying correctives, where necessary. (S. No. 96)

8.46. The Committee would like information under these heads for the years 1979-80 and 1980-81 to be furnished to them for their perusal. (S. No. 97)

8.47. A number of difficulties experienced by small scale units in regard to registration, submission of tenders, lack of specifications, etc. have been brought to the Committee's notice. The

Ministry have also received representations from small scale sector regarding certain State Governments and State Undertaking insisting on earnest money and security even though tendering units are registered with National Small Industries Corporation and DGS&D. Obviously the Ministry of Industry have not so far succeeded in persuading all the States and State agencies to follow similar procedures and allow similar facilities to small scale sector as are in vogue at the Centre. Despite clear instructions that there should be only one inspection of the capacity and technical capability of small units by SISIs, DGS&D, it is stated, insists on a separate inspection in certain cases.

8.48. From all this, the Committee have come to the conclusion that multiplicity of procedural practices at the Centre and the States has prevented the small units from deriving full advantage of the exclusive purchase policy and the facilities and concessions announced by Government for the benefit of small sector. The Committee would like that the Ministry of Industry should make a concerted effort at the highest level to bring round the DGS&D, State Government Departments and State Undertakings to follow the standard procedures and practices so as to ensure that the benefits intended for small scale sector are enjoyed by this sector in full measure. (S. No. 98)

8.49. The Committee strongly support the demand of small scale industries that purchase contracts executed with them by purchasing agencies should include a price escalation clause to provide them protection against rise in prices of raw materials. The DGS&D it is stated, has since 1980, been showing consideration in the matter of prices in respect of items controlled by Government. The Committee would like that the procedure of incorporating price escalation clause in purchase agreements should be formalised so as to leave no scope for doubt as to the items and the extent to which it would apply. In this respect the small scale sector should be treated at par with large sector. (S. No. 99)

8.50. The Committee regret to note that Central Purchase Advisory Council which is constituted to review the problems faced by small industries have met only once during the last 5 years. This shows the Ministry's apathy towards the lot of small sector. The Committee would recommend that the Council at the Centre and similar bodies in the States should meet regularly at least twice a year to discuss specific problems of small units with a view to solving them. (S. No. 100)

8.51. The items not included in the list of items for exclusive or preferential purchase but included in the list of items reserved for production in small scale sector are given price preference upto 15 per cent. The Committee regret to note that there is at present no system to monitor the price preference programme effectively and there is no regular and systematic flow of information regarding price preference accorded by purchasing organisations at the Central and State levels.

8.52. The Committee were disappointed to learn that during 1978-79, when items worth about Rs. 114 crores were purchased by DGS&D from small sector, price preference accorded by DGS&D to this sector worked out to a little more than Rs. 1 lakh and in the first nine months of 1979-80, it was merely Rs. 31,000. From this it appears that price preference is perhaps no more than a myth. The Committee would urge that the Ministry should undertake a study into the working of price preference policy at Central and State levels and take measures to implement it effectively. The Committee would like to be apprised of the outcome of the study and the follow-up action taken in this regard. (S. No. 101)

8.53. Here is one more instance in which the information furnished by the Ministry of Industry in writing is different from what Secretary (Industry) stated in evidence. While the Ministry stated that "there is no regular and continuous flow of information regarding price preference accorded by various purchasing organisations", Secretary (Industry) informed the Committee in evidence that "there was an organised basis of flow of information" in this regard. What else can the Committee suggest in the circumstances except that there is need for greater coordination and cohesion at various levels within Ministry. (S. No. 102)

CHAPTER IX

QUALITY CONTROL

A. Testing Centres

9.1. To enable the small scale entrepreneurs to produce the quality goods and to meet the indigenous and international specifications and to ensure the quality control of the small scale industry, Small Industries Development Organisation has 4 Regional Testing Centres in the country, they are located at Delhi, Bombay, Calcutta and Madras. The Regional Testing Centres have already started functioning and they are rendering comprehensive testing facilities in the field of engineering, metallurgy, electrical and chemical. These Regional Testing Centres are providing testing facilities to the small scale industries to produce stores conforming to Indian Standards Specifications.

1. They are providing testing facilities in accordance with the requirements of DGS & D and other purchase Deptt. of the State and Central Govt.
2. Providing testing facilities under pre-shipment inspection scheme to facilitate export of small scale products.
3. Helping the individual units to set-up their own units in a more feasible and practical way.

9.2. It was stated during non-official evidence before the Committee that the testing facilities provided in these four Regional Testing Centres, were inadequate and that there should be more such centres in the country. It was also pointed out that charges levied by these Centres were higher than those prevailing in the market.

9.3. Another non-official organisation in their evidence before the Committee pointed out that RTC's did not have trained staff and they had not developed any training facilities for the benefit of the small scale sector. It was their view that the work of the testing centres should be coordinated by a Central agency.

9.4. The Ministry have stated that these testing centres are continuously being strengthened to provide testing facilities for more and more products including the products reserved for production in small scale sector.

9.5. The Ministry have informed the committee that Indian Standards Institution has set up the Regional Testing Laboratories. Testing facilities are available at National Test Houses.

9.6. National laboratories/Institutes set up by CSIR essentially for the R & D work also provide the testing facilities. The IITs and other Engineering Institutions also at times provide testing facilities.

9.7. There are some private testing laboratories such as Sri Ram Test House at Delhi. State Governments have also established testing laboratories and quality marking centres at various places in their respective States for providing these facilities for small scale sector units. These laboratories are mostly located in the industrial complexes.

9.8. A chain of 50 Field Testing Stations is proposed to be established under Small Industries Development organisation during the VIth Plan Period through out the country to provide testing facilities at the door steps of clusters of small scale industries.

Utilisation

9.9. The Ministry have stated that Detailed exercise has not been done regarding the utilisation of existing testing facilities for the small scale sector, since there is a large number of products manufactured in this sector. It is not possible to provide all the testing facilities in all the places in the country. The result is that the existing testing facilities do not meet the requirements fully. Moreover, there are many pockets of concentration of industries in various parts of the country where there are no testing facilities available. It is not possible for the small scale sector to equip themselves with the machinery and equipment for testing the products due to the financial implications. The tests are not regularly required to be carried out unless the products are covered under the Certification Scheme.

9.10. DC (SSI) stated during evidence that actually the functioning of the testing centres had started only about three years back. Efforts were being made to expand the area of operations in each of these Centres so as to make facilities available relevant to the particular region. Efforts were also being made to spread out these facilities geographically so that all the clusters of small scale unit were fully served.

9.11. DC (SSI) explained that there was four-tier system of testing in the country:—

- (1) Field testing centres near the cluster of small scale units;

- (2) Regional testing centres;
- (3) National laboratories like the Food Technological Research Institute for specialised testing facilities; and
- (4) The National Testing House at the Alipore.

He added that they were trying to link the one with the other.

9.12. He agreed to the view that the facilities available in the technological institutions like IITs should be made use of. He stated that certain linkages were being built between the testing centres and other institutions.

9.13. He, however, added that the experience of using the colleges and other educational institutions for the industrial testing is not always very happy because they had their own priorities and curriculum. Effort should really be to take the facilities to some of the less developed states where such facilities were not available.

9.14. Asked whether working of the regional testing centres had been evaluated, the DC (SSI) stated that while they made internal evaluation periodically, no external evaluation had been done so far; it was too early for an external evaluation.

9.15. The following Table shows the revenue and expenditure of the 4 regional testing centres during the last 3 years:

(In Rupees)

	1978-79	1979-80	1980-81 (upto Nov. 80)
Revenue . . .	1,22,384	1,67,023	1,81,447
Expenditure . . .	13,19,580	17,60,17	11,72,473

9.16. When pointed out that the revenue was much less than the expenditure on the Centres, the DC (SSI) stated that it needed to be recognised that this was a quasi promotional function and commercial charging could not be done for the testing services. For small scale units a rebate of 50 per cent was given on the prescribed charges; for large scale units, the charges were double.

B. Standardisation

9.17. The Ministry have stated that the importance of standardisation cannot be over-looked, since it provides; (i) basis of comparison, (ii) variety reduction, (iii) guaranteed performance standards, (iv) production of quality goods, (v) increased productivity, (vi) inter-changeability, (vii) financial benefits to the producers both for the indigenous and export markets, and (viii) availability of quality goods to the consumers.

9.18. A large number of products in the country are manufactured in the small scale sector. The Committee have been informed that so far, about 4,000 products have been codified and against and the standard specifications prepared for the products for certification scheme of the Indian Standards Institution (ISI). ISI has prepared about 10,000 standard specifications including code of practices and recommendations. In all about 8,000 products have been codified by ISI. ISI have prepared standards for all the products which are covered under the certification scheme.

9.19. The Ministry have added that a large gap exists between the number of products manufactured by the small scale industries and the standard specifications prepared for the products for certification scheme.

9.20. The standards of design for the products produced in the small scale sector requires colossal work for which the inputs are not adequately available for in the industry and further there is no uniformity in the presently adopted product designs.

9.21. Elaborate testing facilities for the products manufactured by the small scale industries are not presently available in the country, particularly in the areas having a cluster of particular product(s) manufacturing industry. Further wherever the facilities are available for testing of a particular product(s) they are not within the easy approach of the small scale units due to the proximity.

9.22. Resultant effect of standardisation, sometimes may lead to scrapping of old sets of dies, tools, fixtures, instruments, machinery and equipment, which is an expensive exercise for a small scale unit on account of limited financial resources.

9.23. Sometimes it is a time consuming and an expensive exercise for the small scale industries producing the products conforming to

the standards specifications, although the products may meet most of the essential requirements.

9.24. The DC (SSI), it is stated, is in constant touch with the Indian Standard Institution for introducing standardisation of products of small scale sector.

9.25. The Ministry have stated that for extending standardisation and certification scheme for small scale products testing facilities for the small scale sector need to be augmented to cover the maximum range of products.

9.26. The Ministry have suggested that the burden of certification scheme in financial terms may be reduced. An incentive scheme may be introduced for the small scale industries to give them financial relief by charging concessional rates over and above the existing concessional rates.

9.27. The Committee have been informed that Government have already introduced a Compulsory Quality Control for 41 items of Domestic Electrical Appliances w.e.f. 1st July, 1977 as an experiment towards the Compulsory Quality Control System. More products would be introduced after an assessment of over-all situation about the efficacy of the Order. One of the major obstacles in the implementation of this order is the non-availability of testing facilities at the places where these items are manufactured. The small scale units are not in a position to finance the testing facilities of their own. Steps are being taken to provide testing facilities at some of these places and more will be introduced in future.

9.28. DC (SSI) stated in evidence that while it was certainly advisable to go in for quality marketing in respect of domestic appliances and Government had been enforcing the compulsory quality control marketing order in respect of one group of products, it was administratively difficult to implement it in practice. But it was a step in the right direction.

9.29. There is a four tier system of testing facilities in the country. Four Regional Testing Centres are already functioning for the benefit of small scale sector. Fifty Field Testing Stations are to be set up during the Sixth Plan period. Besides, there are national laboratories for specialised testing facilities and at the apex is National Testing House at Alipur. DC (SSI) has stated that they were trying to link one tier with the other. Testing facilities, it is stated, are also available in the States, IITs, other engineering institutions and even in private testing laboratories. It is doubtful

if the small scale units have a clear picture of the nature and range of testing facilities available in the scores of testing institutions spread over the length and breadth of the country and how they have to go about to avail of the facilities at the most economical cost. The Committee feel that a comprehensive guide-book is needed to explain in simple language at one place the nature, range and cost of testing facilities at each of these testing centres and the procedure which the small scale units have to follow to get the products tested speedily and economically. They would suggest that the Ministry of Industry should bring out a comprehensive guide-book of testing facilities and make it available to small scale units as a priced publication. (S. No. 103)

9.30. Reports reaching the Committee from small scale sector show that the small scale units are not satisfied with the working of the Regional Testing Centres at Delhi, Bombay, Calcutta and Madras. The Committee were informed that though internal evaluation of the Regional Testing Centres is done periodically, it was premature to commission an external evaluation of these testing centres as they were set up only about three years ago. In this context, the Committee take note of the very low revenue derived from testing services rendered by these Regional Centres as compared to the heavy expenditure incurred on these Centres. Taking all these factors into consideration, the Committee feel that there is a need to assess the usefulness and utilisation of facilities available in the Regional Testing Centres and identify deficiencies in their working because of which they have not been able to become very popular. The Committee would suggest that an assessment on these lines should be undertaken expeditiously and working of these centres streamlined and testing apparatus strengthened, if necessary, in the light of the assessment report so as to win the confidence of small scale units. (S. No. 104)

9.31. The importance of standardisation of products of small scale is too obvious to need any emphasis. A number of products are reported to have been codified and covered under the certification scheme of the Indian Standards Institution (ISI). But still there is a large gap between the number of products manufactured by the small scale industries and the standard specifications prepared for the products for certification scheme. The Committee feel that the process of codifying standard specifications should be speeded up with a view to bringing more and more products of small scale sector under the ISI certification scheme and in this process, the products which are reserved for exclusive production in the small scale sector should be given priority. (S. No. 105)

9.32. The Committee are informed that elaborate testing facilities are required before introducing standardisation of the products of small scale sector, but, at present testing facilities are not adequate nor within easy reach of the small scale units. In this context the proposal to set up 50 Field Testing Stations during Sixth Plan is not only very timely but if implemented judiciously, can also fill the gaps in testing facilities in various regions. The Committee recommend that these Field Testing Stations should be so located that relevant testing facilities become available to clusters of small scale units in all parts of the country at their door steps. In this process, the needs of less developed areas should be given due consideration. (S. No. 106)

9.33. The Committee take note of the Ministry's view that it is an expensive exercise for the small scale industries producing the products conforming to standard specifications and it would be necessary to reduce the financial burden which the certification scheme may place on these units. The Committee feel that it should be possible for Ministry of Industry to go into the cost aspect of the standardisation scheme and devise measures to make it financially less burdensome and thus attractive for small scale units to go in for standardisation of their products. (S. No. 107)

9.34. The Committee consider the introduction of compulsory quality control scheme in respect of domestic electrical appliances as a step in the right direction even though the Ministry find it administratively difficult to implement it. The Committee feel that the Ministry should take measures to overcome the administrative difficulties experienced in implementation of this scheme and gradually extend the scheme of other product groups, one after the other, in accordance with a priority list to be drawn up by the Ministry. (S. No. 108)

NEW DELHI:
April 14, 1981
Chaitra 24, 1903 (S).

S. B. P. PATTABHI RAMA RAO,
Chairman,
Estimates Committee.

APPENDIX

Summary of Recommendations/Observations

S. No.	Para No. of the Report	Recommendations/observations
1	2	3
1	2.32	<p>It is distressing to note that the small scale industries which have been assigned an increasingly important role in the plans towards achieving wider employment opportunities, promoting intensive development of new viable industries and decentralisation and dispersal of industries, earning foreign exchange for the country through exports and which have now established their potential to achieve these ends should be suffering from chronic shortages of essential raw materials.</p>
2	2.33	<p>Even if the contention of the small scale sector that, with a contribution of 40 per cent to industrial production, their share of raw materials was of the order of 10 per cent only, is not accepted, the severity of the shortages is evident when, even according to government's own estimates, the level of satisfaction in the small sector in the matter of raw materials from official channels is only 30 to 50 per cent of their capacity. If with such a low level of raw material supplies, the small sector could achieve a production of the value of nearly Rs. 21,000 crores representing 32 per cent of the total industrial production, make exports worth Rs. 1100 crores representing 16 per cent of the total exports and provide employment to about 70 lakh persons, the full potential of this sector is not very difficult to visualise if their raw material needs are met in full.</p>

1	2	3
3	2.34	<p>While the canalising agencies are able to provide to the DGTD units, year after year, a well defined quantity of raw materials based on the recorded evidence, they have failed to make available to the small scale units "a substantial portion of requirements" as there is no evidence either with the canalising agency or even with the State Directors of Industries as to the actual utilisation of the raw materials by a small scale unit in the past. Since maintenance of a proper record of supply and consumption of raw materials will be in the interest of the small units themselves, the Committee would like the Ministry to explore the possibility of evolving a system of record keeping by such units in consultation with the representative organisations.</p>
4	2.35	<p>The Committee are of the view that considering the contribution of the small sector to the industrial production and to the national economy as a whole, the raw material requirements of small scale industries deserve to be taken more seriously and given the highest priority and considered as a first charge on the availability of such materials in the country consistent with the needs of other important and strategic sectors like public utilities, Defence, oil exploration etc. A public pronouncement of this approach will create a sense of confidence and remove the psychology of scarcity which leads to inflation.</p>
5	2.36	<p>The Committee endorse the recommendation of the SSI Board that wherever possible, indigenous raw materials should be made available first to small sector and any shortfalls which may have to be imported should be done by the large scale units.</p>
6	2.37	<p>Government, have not been able to have a clear idea of the demand assessment of the small scale sector for the basic raw materials in short</p>

1

2

3

supply. The Committee feel that unless the magnitude of the problem is known fairly accurately at least at macro level it will be difficult for the government to draw any plan to make good the shortage of raw materials. The Committee would expect the Government to evolve a suitable mechanism to make a demand survey in the small scale sector at least of scarce raw materials.

7 2.38

Since government have taken a decision to import whenever necessary the estimated shortfalls to augment indigenous availability, the Committee feel that rigidly sticking to the criterion of past offtake as the basis of allocation, even when it is known that it meets only about 50 per cent of the demand of SS sector, is not consistent with the concern expressed by Government for this sector. The Committee would like to urge that government should make all efforts to provide raw material to SS units as per their verifiable demand or as suggested by the Ministry at least as per their past consumption (duly authenticated by Chartered Accountant or State Director of Industries) irrespective of the source of purchase of materials, with due provision for growth.

8 2.39

The Committee find the suggestion made by a non-official organisation to allot raw material to a new small scale unit on the basis of project report in the first year from the date of commencement of production and thereafter on the basis of past consumption or performance as worthy of serious consideration. This has the merit of helping a unit find its feet in the first couple of years which is most crucial period for a new entrepreneur and thus guarding against "infant mortality" among small scale units. The Committee would like the Ministry to give it a serious thought and evolve a satisfactory system

1	2	3
		to meet the raw material demands of new units in full.
9	2.41	The Committee would like that norms should also be formulated for all items particularly in short supply and for other categories of industries in dire difficulties to facilitate a scientific assessment of requirements of units on a uniform basis throughout the country. The Committee would expect this work to be taken up according to a programme and completed as soon as possible.
10	2.48	<p>The Committee feel that a beginning to earmark a reasonable percentage of indigenous production by an administrative order may be made straight-away in the case of raw materials produced and handled entirely in public sector. Informal efforts to persuade large producers in private sector to supply critical raw materials, to small scale sector on high priority basis which are stated to be already being made by Government should be intensified and results watched.</p> <p>The Committee would like to be apprised of the concrete action taken in this regard with reference to public sector and private sector units separately.</p>
11	2.49	The Committee would like that the Ministry should keep a vigilant eye on the requirements and availability of critical raw materials for small scale sector and, if persuasion fails to produce results and the supply position reaches a critical stage, the Ministry should not hesitate to exercise statutory powers available to the Government with a view to helping the small sector out of the crisis.
12	2.58	The Committee urge that, instead of distrusting the demand put forth by SIDCs and

1	2	3
		<p>applying across the broad cuts on the basis of an unscientific criterion of past off-take, the causes which lead to over-estimation of demands by SIDCs should be analysed, an atmosphere of mutual trust created and the system of registering demands with SIDCs made more reliable so that the tendency to over estimate is curbed and the legitimate demands of SS Units registered with State agencies are met at the right time. If this is not done, the SS Units' faith in SIDCs is likely to be eroded and this may bring in further problems in a field already beset with problems.</p>
13	2.71 2.72	<p>The Committee would agree with the Ministry of Industry that all efforts should be made by regular reviews of rolling programmes of steel mills and otherwise to ensure that the original rolling programmes are adhered to as far as practicable and a system of advance information should be evolved to communicate to the small industries units the anticipated short-falls or deviations so that the small units can carry out necessary adjustment in their manufacturing programmes in proper time. It will also be useful, in view of the Committee, if as suggested by Ministry of Steel and Mines adequate arrangements are made to store at suitable place—items/sections of common use in between rolling programmes. The Committee would expect the Ministry of Industry to formulate a comprehensive scheme in consultation with the Ministry of Steel to deal with this problem.</p>
14	2.73	<p>The Committee feel that, here too, if scarcity conditions in certain sections and items are foreseen to be developing to a level where the manufacturing programmes of small scale units are likely to be seriously dislocated, the Ministry should not hesitate to come to the rescue of</p>

1	2	3
		SS units, either by supplying the material from buffer stocks if available, or by organising timely imports of the required materials after obtaining a firm agreement from the industries concerned to this course of action.
15	2.86	The Committee welcome the assurance of the Ministry that they would ensure that the PVC compound materials are made available to the small scale units using this products for further processing.
16	2.87	The Committee would expect that, in the case of other raw materials also, even though the large manufacturing units might have been licensed prior to reservations, some measures, persuasive or administrative, would be taken by the Ministry, to the extent possible, to meet the genuine and legitimate needs of small scale sector. Otherwise, as feared, the small scale units would find it difficult to survive in these fields.
17	2.88	The Committee are surprised to know that while reserving an item for exclusive manufacture in small scale sector, Government did not consider it necessary to provide an assured supply of raw materials required for its manufacture. Reservation of an item for small scale sector without proper linkage with raw material source especially when its production depends mainly on a critical raw material in short supply is, in the Committee's view, an illusory concession not capable of doing any good to the small sector. While it is not necessary that a control order need necessarily be brought out to ensure supply of all the 1100—1200 items needed for production of 834 items on reserved list, the Committee hold that a general obligation does devolve on Government to see that as far as possible the critical raw materials generally in

1	2	3
		short supply which are required to produce reserved items are made available to the small scale units from assured sources.
18	2.89	As regards supply of Octyle Alcohol for use in the small scale sector, the Committee hope that the proposal of the Ministry of Industry for reservation of 25 per cent of the product of NOCIL and Union Carbide for this sector would come through before long and the reasonable requirements of small scale sector would be fully met.
19	2.94	The Committee take note of the feelings of the small scale sector that the present practice under which large units demand 100 per cent of advance payment for promised supplies is rather harsh. But they also feel that even so, it may not be practical in all cases to compel the large units to make supplies to small scale industries against payment of 1 per cent earnest money, as suggested. The Committee agree with the suggestion made by Secretary (Industry) that a suitable formula for payments should be evolved by discussion among banks, large scale units and small scale units with their consent. The Committee expect the Ministry of Industry to take the promised initiative in the matter and bring consensus on modalities of payments among all concerned so to bring relief to small sector.
20	3.18 to 3.21	The Committee wish to express their unhappiness at the contradictory statements made by the Ministry within a span of 3 months in regard to inadequacies in the matter of supply of raw materials supplied to SS units through the canalising agencies and availability of materials in the right quantity and right time as requisitioned by Small Scale Sector.

1

2

3

This, the Committee are constrained to observe, creates doubt as regards the Government claim on adequacy of stocks of raw materials built by canalising agencies.

21

3.22

The Committee see no reason why the quantum of imports made to meet the requirements of SSI units should not be earmarked for distribution to small industries. In the absence of such an earmarking, there is no guarantee that the imports made in the name of SSI units will actually reach them and will not go over to large sector. The Committee recommend that shortfalls of critical raw materials required by small scale sector should be made good by timely imports and the imports made for small sector should not be diverted to any other sector.

22

3.29

When due to external factors the materials imported by canalising agencies do not reach in time and the canalising agencies get 3 to 4 consignments at the same time, accelerated sale notes are issued by the canalising agencies at a time against the past registered demand of the actual users. In such circumstances SS units, instead of getting deliveries in a phased programme are faced with the problem of lifting large quantities of materials in one lot. The Committee would like that the procedure obtaining in MMTC according to which if the units cannot lift the material offered, they are given an opportunity to give a revised programme for lifting the material should be followed by STC also and extended period for lifting material should be fixed in consultation with the SS units concerned. In such circumstances future entitlements should not be denied or delayed. The Committee would like the Ministry of Industry to make sure that no hardship is caused to SS units in the event of bunching of consignments.

1	2	3
23	3.30	The Committee welcome the Bill Market Scheme in vogue in STC under which credit is available to SS units which are hard up for finance for lifting material. The Committee would suggest that the Ministry of Industry may explain the possibility of persuading other canalising agencies to introduce similar credit scheme for SS units.
24	3.36 to 3.39	The Committee agree with the Secretary (Industry's) suggestion for introducing a two-way mechanism under which if the Steel material is ready for delivery but the delivery is not taken, a certain surcharge should be levied for the added inventory cost; and if full money has been taken and delivery note given but the delivery is not given on the day the person comes for taking delivery, then the customer should be compensated for the interest loss. This mechanism would discourage delays not only on the part of suppliers but also on the part of customers. The Committee would like the Ministry of Industry to process this suggestion and apprise them of the outcome.
25	3.49	What makes the Committee unhappy is that the Ministry of Industry have been fully aware of the illusory character of the facility of direct import provided to the actual user and they have not been able to do anything worthwhile to remedy the situation. The Committee recommend that the entire range of procedure relating to entitlement to get "no objection certificate" from canalising agency and issue of AU licence should be reviewed with a view to cutting down the time in these procedural stages to the absolute minimum.
26	3.50	This alone will not solve the problem fully. The Ministry should be able to help the SS units interested in making direct import of material

1	2	3
		under AU licence in locating foreign suppliers without delay and guide them on the most expeditious methods of obtaining the imported material. The Committee would expect the Ministry to work out a comprehensive scheme to make this facility real and useful.
27	3.51	The Committee find that the Small Industries Corporations who can bulk the requirements of import materials on behalf of the Small Units are also handicapped in availing of import facility as they do not have with them the facility which the actual users have and they have to obtain foreign exchange allocation even when import is freely permitted under OGL. The Committee recommend that procedural difficulties of SIDCs in importing materials on behalf of SS units should be removed without delay and the corporators should be enabled to import material in such circumstances without difficulty.
28	3.64	In the Committee's view there is need for a review of the system of fixing prices of canalised items and pooling up of prices. The aim should be not to make any gain either for the Government or for the price equalisation fund. The Committee hope that this matter would receive a dispassionate consideration.
29	3.65	The Committee recommend that, on the one hand, the Ministry of Industry should satisfy themselves that the service charges of the canalising agencies are actually what they say these are (i.e. 1 to 5 percent) and that they do not levy any additional charge on account of service expenses under any other name; and on the other hand, they should impress upon the canalising agencies that there is need for the small scale units and their representative organisations to be taken into confidence in regard to the exact quantum of service charges levied by the canalising agencies so that they don't labour under any misunderstanding on this account.

1	2	3
30	3.71	<p>Large scale industries are at present able to take delivery of a substantial portion of the imported material at high seas on which they do not have to pay Inter-State Sales Tax and other local taxes. They are thus able to get raw material at a much cheaper rate and the interest of the small scale sector which also has this facility but has not been able to make use of it due to procedural difficulties is thus jeopardised at the very first stage of supply of raw materials. The Committee urge that the procedural constraint due to which the corporations are not recognised on "actual users" should be removed forthwith so that the small industries corporations could also lift imported material on high seas and supply it to small scale units at cheaper price than at which they are able to get it at present.</p>
31	3.80	<p>The Committee note that MMTC is already using the infrastructure of Small Industry Corporations at a number of places in the country where the Corporations are acting as storage-cum-handling agencies on behalf of MMTC for all their materials and it is prepared to consider opening up of similar depots at other places if considered justified. The Committee would suggest that other canalising agencies should also be persuaded by the Ministry of Industry to arrive at similar arrangements with the State Industry Corporations to enable the small scale units to obtain the material economically, and easily from centrally situated godowns in their respective States.</p>
32	3.86	<p>The Committee welcome the Government policy of establishing buffer stocks of critical raw materials by supplementing through imports the production within the country. This has been done in respect of stainless steel, tin, nickel and copper and the scheme will be extended to iron and steel, pig iron, mutton tallow and paraffin.</p>

1	2	3
		wax. They would like the detailed scheme to be published immediately for general information of small scale sector and it should be implemented efficiently to provide relief to small scale units all over the country. The Committee hope that the Ministry will not hesitate to extend the scheme to other items also as and when considered necessary.
33	4.8	In the Committee's opinion channelisation of scarce raw materials through State Industries Corporations is unexceptionable on principle. But this experiment can be a success only if the SSICs acquire the necessary expertise motivation and resources to discharge this responsibility efficiently and economically. The Committee would urge that the Ministry of Industry should not only see that the SSICs are properly equipped to handle this commercial operation in a business like manner but also evolve a pattern of organisational arrangement to monitor and coordinate their working with a view to ensuring equitable and efficient timely distribution of raw materials to small scale sector and applying correctives whenever and wherever found necessary.
34	4.35	The Committee cannot but conclude that all is not well with the small Industries Development Corporations and, no wonder, the small scale units are dissatisfied with their working. The Committee, feel that a study into the working of the Small Industry Corporations should be undertaken expeditiously especially in the field of distribution of raw materials, price structure and the margin of profits they are authorised to charge and they actually charge from the small scale units in order to determine whether these Corporations, which are the agencies of the Central Government Organisations in these fields are discharging their functions efficiently and within the four corners of the guidelines issued

1	2	3
		by the Central Government organisations. Unless such a study is made the Central Government would not be able to appreciate fully the drawbacks in the working of their agencies in the States and would therefore not be able to take corrective action which the Central Government are under obligation to take in the interest of small scale units.
35	4.37	The Committee would like that, pending the aforesaid study, the controversy about the corporations' right to recover additional transportation charges from the point of receiving supplies to the point of delivery and the quantity of such additional charges should be resolved clarification published not only for the guide of the SIDCs but also for the information of small scale units.
36	4.38	The Committee find that the Industry Corporations find the existing level of service charges inadequate to meet the cost of overheads in handling of raw materials distributed through them. This matter, it is stated is under the consideration of the Ministry of Steel. The Committee would expect a decision in the matter to be taken expeditiously.
37	4.39— 4.40	The Committee feel that it would be unfair to small scale units if the overhead expenditure on the promotional activities of the corporations is passed on to raw material supplies which the small scale units are obliged to buy from the corporations. The Committee would like the Ministry to make sure that this does not happen.
38	4.41	The Committee are surprised at the stand taken by the Ministry of Industry that it would be difficult for the Government of India to advise the Small Industry Corporations as to the manner of regulating their funds because they are

1

2

3

State bodies registered under Companies Act but they would be prepared to take action to augment the funds of the Corporations which are suffering from paucity of funds. In the Committee's view it is too legalistic a view. The Committee would suggest that while providing funds to the SIDCs the Ministry of Industry have every right to advise them about the steps necessary to improve the management of their funds including the need to induct better financial and managerial expertise in the Corporations. The Committee recommended that this should be done.

39

4.42

The Committee are unhappy to note that the Ministry have not spoken with one voice before the Committee on certain issues thus making it difficult for them to have a correct appreciation of the problems. Divergence of views on any subject within a Ministry is neither unusual nor in any way bad; what is unusual in the case of advising the Corporations not to levy extra charges for and materials over and above those permitted by canalising agencies is that the different views were not harmonised within the Ministry before placing them before the Committee. This shows lack of coordination and cohesion within the Ministry which is unfortunate.

40

4.43

The Committee find that the financial position of the Small Industry Corporations could improve and they could also provide a few days' credit to the small scale units on the sale of raw materials as is being done by the Corporations in States like Maharashtra, Gujarat, Karnataka and Tamil Nadu if these Corporations could borrow funds from the commercial banks at the same preferential rate of interest as is charged from the small scale units. The Committee strongly recommend that the Small Industry Development Corporations should be treated at

1	2	3
		par with the small scale units in the matter of rate of interest on funds advanced by the banks. The Committee would like this matter to be taken up by the Ministry of Industry with the Ministry of Finance.
41	4.44	It is unfortunate that in some States tenure of chief executives of the Small Industry Development Corporations rarely exceeds a few months. The Ministry of Industry would do well to bring the harmful effect of such frequent changes in the top management of the corporations to the notice of the States concerned.
42	4.73	The Committee are surprised to learn that critical and controlled raw materials like iron and steel are available in the open market at a premium but not so through official channels to meet the needs of SS units. While the Committee agree that adequate production and timely supply of scarce raw materials of the required specifications are doubtless the ultimate solution to the problem of unauthorised sale of controlled materials in the open market by both large and small scale units, they are unable to reconcile with the position taken by the Ministry that the government is helpless to stop malpractices in respect of raw materials whose distribution is not under any statutory control.
43	4.74	The Committee think the Government should not remain a silent spectator when scarcity conditions in critical raw materials are exploited by unscrupulous elements to the detriment of genuine small scale units. The Committee feel that Government should act to regulate distribution and use of these raw materials which are of critical importance to SS units and generally in short supply.
44	4.75	The Committee are concerned at the sharp increase in the number of proven cases of malpractices in the use of iron and steel material

1	2	3
		resulting in debarment of the allottees from 173 in 1978-79 to 365 in 1979-80 and to 420 in the first 8 months of 1980-81. The Committee would like inspections to detect misuse of all kinds of critical raw materials—not merely iron and steel to be intensified with a view to taking deterrent action in proven cases of malpractices.
45	4.76	<p>The Committee recommend the following additional measures to be taken in order to minimise the misuse of critical raw materials.</p> <p>(i) Both capacity assessments and deliveries of raw materials should be made public and notified as in the case of import licences and copies of these notifications should be made available to the representative associations, individual units and the State authorities concerned.</p>
46	4.76	<p>(ii) A procedure should be established under which arrival of specific materials, in stock-yards and godowns of canalising agencies, total quantities available from day to day and prices of materials should be displayed on the notice boards outside the offices of the agencies, producers concerned, State Directors of Industries, District Industries Centres and Small Industries Development Corporations.</p>
47	4.76	<p>(iii) Where sale notes and delivery permits are to be issued by the producers and distributors to allottees units these should be despatched to the allottees by post Registered A.D. or as may otherwise be specifically desired by the allottees. The preference of the applicants in this regard should be ascertained beforehand.</p>
48	4.77 & 4.78	<p>From the two sets of figures given by the Ministry the Committee cannot help entertaining a feeling that the Ministry do not seem to be viewing the problems of 'bogus' units as seriously as they should.</p>

1	2	3
49	4.79	This was the position obtaining in 1973-74 i.e., seven years ago. The Committee feel that a fresh survey is now overdue and should be taken up to find out the magnitude of this problems as it prevails today, as only then can they take more effective measures to protect the interest of genuine small scale units.
50	4.80	The Committee expect that besides any other action that may be warranted under the existing rules and practices the authorities at the Centre and the States, should be advised, by the Ministry to debar 'bogus' units from receiving critical raw materials through official agencies and they should be black listed.
51	4.85	The Committee cannot help observing that even though 'optional' registration entitles the small scale units to get assured supplies of raw materials at 'controlled' rates which is not a small thing, even then a large number of the units do not come to register themselves with State agencies. It should be worthwhile to study this phenomenon.
52	4.98	The Committee are constrained to conclude that the office of DC(SSSI) has failed to fulfil the role expected of it by Small Scale Sector and State agencies.
53	4.100	The Committee would like that the rule and powers of DC(SSSI) should be reviewed with a view to making him the principal and patent instrument to be able to effectively intervene with the Department and canalising agencies of Central Government on behalf of the State and Small Scale units and solve their problems.
54	4.101	The Committee would also like that structure and working system of the office of DC(SSSI) should be studied in depth by management experts with a view to making it a live and result-oriented organisation capable to serving

1	2	3
55	4.102	<p>the small scale sector efficiently and winning the confidence of State agencies and small units all over the country.</p>
		<p>The Committee cannot appreciate how the office of DC(SSSI) can be said to be performing a "useful coordinating role" if the State agencies charged with the responsibility of looking after the interests of Small Scale Sector in various States have themselves to go round the country knocking at the doors of Central agencies, one after the other, in search of raw materials and solutions to their problems. The Committee strongly feel the need of an inter-ministerial executive body at the Centre as suggested by the State Government and conceded by the Ministry of Industry, to act as a nodal agency with an effective voice in matters concerning production, import, allocation and transportation of raw materials, whom alone the State agencies may have to approach with the problems of small scale sector for an effective solution. The Committee would suggest that a nodal agency on these lines should be set up at the Centre at the earliest.</p>
56	5.23	<p>The Committee are not in a position to sit in judgment over the need for so many Government and semi-Government organisations in the marketing field. The Committee, however, wish that an overall view on the role and performance of each one of the organisations should be taken with the help of a body of experts to determine whether all these organisations are in fact needed and are working in clearly defined fields without any over-lapping and duplication in their efforts. The Committee desire that the Ministry of Industry should, in consultation with the administrative authorities concerned with these organisations, explore the possibility of</p>

1	2	3
		organising a macro study of the responsibilities, areas of operations, performance, and need for continuance in the present form of all the public organisation in this field.
57	5.24	The question is: whether the Government and semi-Government organisations are playing their part effectively to strengthen and supplement the efforts of small scale units. This would require a proper assessment of the role of each Government and semi-Government organisation before answer to the aforesaid question can be found. The Committee feel that the Ministry of Industry are best suited to organise an overall assessment of the role and performance of each Government and semi-Government organisations in the field of marketing of products of small scale sector. Such a study can also be taken up by the expert body recommended in the previous paragraph.
58	5.25	With so many organisations already there in the marketing field, the Committee do not wish to recommend any addition to their number as suggested by non-official organisations and certain State Governments. But the Committee do feel that there is an imperative need to develop suitable linkage between small scale units at the grass-root level and District and State agencies in each State, between the agencies of one State and the other States, and also between the State agencies and the Central agencies, if the optimum advantage of the present marketing network has to be given to the small scale sector. The Committee would recommend that the Ministry of Industry should work out a suitable scheme of linkages at all these levels and make efforts to implement it.
59	5.26	The Committee desire that marketing information net-work for small scale sector should

1	2	3
		<p>be adequately strengthened and updated to provide complete and timely information about the products in demand or likely to be demanded, their engineering specifications and all other aspects of marketing which can be helpful to the small sector.</p>
60	5.27 5.28	<p>Out of 21 Small Industries Corporations in the States and Union Territories, 15 Corporations have included marketing assistance to the small scale industries products under their activities. The Committee are disappointed to learn that the marketing activity has yet to make significant strides except in the case of Small Industries Corporations of Delhi, Madhya Pradesh and Maharashtra.</p> <p>The Committee feel that the Centre has a responsibility to discharge and a role to play in making the SSICs more dynamic in their activities. In fact, it is only the Ministry of Industry, at the Centre which can as a coordinating and focal agency, organise, of course, with the consent of the SSICs, a formal assessment of review of the overall role and working of State Small Industries Corporations with a view to making them more effective instruments of service to small scale sector.</p>
61	5.29	<p>The Committee take note of the fact that a study was conducted by the Indian Institute of Foreign Trade into the role and activities of the State Small Industries Corporations but this study, it is seen, was confined only to the export efforts of the Corporations. The Committee hope that the Ministry of Industry would impress upon the State Industries Corporations the need for implementing the recommendations of the Indian Institute of Foreign Trade to develop the export activities of the Corporations.</p>

1	2	3
62	5.30	The Ministry are conscious of the fact that the marketing expertise within the SISIs is somewhat limited. In this context the Committee take note of the assurance given by the Secretary, Industry, during the evidence that the marketing wings of the SISIs in different States will be strengthened to provide full information and assistance to the small scale sector in the matter of market surveys, investments, equipment and other relevant matters. The Committee hope that this task would be completed before long.
63	5.39	The Committee would suggest that, taking note of the desire of small scale sector to reach the developing markets, TDA should extend its activities to more and more developing countries.
64	5.40	It is regrettable that even when small scale sector is a major partner in the TDA's activities, the TDA, it appears, has not been able to fully satisfy this sector. The Committee would suggest that more attention than in the past should be given by TDA to win the confidence of small scale sector.
65	5.41	The small scale units have felt the necessity of a document which should list at one place the plus-points of their foreign competitors in the export fields. The Committee were assured by DC(SSSI) in evidence that they would bring out in a book form the plus-points of foreign competitors for the benefit of small scale sector. They hope that this publication will be out soon.
66	5.42	The Committee take note that though TDA publishes a very large number of reports, no assessment of these reports has so far been made to determine the extent to which these reports have been accurate and useful to the small scale

1	2	3
		sector. The Committee would expect the Ministry to make such an assessment with a view to making these reports more informative and useful to the small scale sector.
67	5.46	The Committee would suggest that communication gap between the Institute of Foreign Trade and the small scale sector should be removed so that the small scale sector for whom so much of work is claimed to have been done by the Institute, can benefit from their studies.
68	5.54	The Committee welcome the initiative taken by DC (SSI) in promoting consortia approach among small scale units to step up the marketing of their products in home and foreign market. The Committee would urge the Ministry to finalise the scheme of internal marketing consortia expeditiously and give it full support to make it a success.
69	5.55	The Committee, however, note with concern that the scheme of export consortia has, according to a recent study made by the Indian Institute of Foreign Trade, not clicked. It will be very sad if scheme for export consortia which has a tremendous potential for boosting exports from small scale sector is allowed to fail. The Committee would suggest that the Ministry of Industry should study the area of weaknesses of the export consortia and take all possible measures to put them back in good health to be able to serve as effective instruments of service to small scale sector in the field of exports.
70	6.35	The Committee feel that it is not only the economics of production but also the social compulsion to bring about decentralisation of means of production that demand ancillarisation to be adopted as a matter of State policy in industrial field. Even if it is not possible, as stated by

1	2	3
		Secretary (Industry), to universalise ancillarisation as absolutely necessary pre-condition in all cases, the Committee see no reason why a beginning in this direction cannot be made immediately in selected fields, to start with, and it is extended to their areas progressively in the light to experience. The Committee would like the Government to take a policy decision in this direction without any delay.
71	6.36	The Committee are informed that the concept of 'nucleus plant' is now being given a concrete shape in consultation with the State Governments. The Committee welcome this new approach of nucleus plants and urge the Government to concretise this concept and implement it expeditiously.
72	6.73	The Committee are informed that a panel set up by DCSSI have outlined a strategy for ancillary development and their recommendations are to be considered by the SSI Board shortly. The Committee would like this exercise to be completed early and the plan of action to implement the strategy drawn up without delay and implemented in earnestness.
73	6.38	The Committee regret to find that at present there is no system of feed back in respect of procurements made by large scale industries from small scale units. It is still more regrettable that information in respect of purchase made even by departmental undertakings of Government from small sector is not available with the Ministry. The Committee would like that a suitable information system should be devised to collect feed back on the progress of ancillarisation and procurements made from small scale units by large industries in public and private sectors and departmental undertakings to enable the Ministry to monitor the progress made by ancillarisation programmes and to take corrective measures, as and when necessary.

1	2	3
74	6.39	<p>The Committee strongly feel that, even though no uniform targets for purchases to be made by public sector enterprises from small scale sector may be possible because of the product-range of the undertakings, there is great scope for stepping up purchases from small scale sector and the purchases should be stepped up and monitored by Ministry of Industry with a view to taking up the matter with the administrative Ministries concerned for corrective action, if and when necessary.</p>
75	6.40	<p>The Committee are disappointed to find that no study has been made either by the Ministry of Industry or the Bureau of Public Enterprises (BPE) as to the range of items that can be purchased by public sector enterprises from small scale sector. The Committee has expected that at least the Ministry of Industry which have been charged with the responsibility of looking after the interests of small scale sector, would have made such a study in respect of undertakings under them. The Committee would strongly urge that the Ministry of Industry should immediately undertake a study to determine the optimum level of procurement that can and should be made by public sector enterprises under their control from small scale sector and issue clear directives to the undertakings to procure such items from the small scale sector. The Committee would like to be informed of the outcome of such a study within six months.</p>
76	6.41	<p>The Committee would urge that Bureau of Public Enterprises (BPE) should also arrange for a similar study to be made through the administrative Ministries in respect of public sector enterprises under the control of respective Ministries. The Committee would expect the Ministry of Industry to liaise with BPE and adminis-</p>

1	2	3
		trative Ministries to ensure expeditious completion of such studies and necessary follow-up action in the light of the studies.
77	6.42	The Committee would also suggest that Ministry of Industry should take up with State Governments the question of undertaking such studies in respect of the public sector enterprises of the States concerned.
78	6.43	The Committee regret to note that though a number of guidelines have been issued by the Bureau of Public Enterprises (BPE) to public sector enterprises of the Central Government for the growth and development of ancillaries, the guidelines have not been implemented in all respects by all the public sector enterprises. The Committee take serious note of the public-sector enterprises' disregard of the guidelines issued by BPE. This is a serious reflection not only on the coordinating role of BPE but also on the control of administrative Ministries on the enterprises. The Committee would expect the Ministry of Industry to take up this matter with the administrative Ministries concerned to ensure that guidelines issued to public sector enterprises for the development and growth of ancillaries and implemented by all of them in letter and spirit and progress reported to the authorities concerned as laid down under the existing guidelines.
79	6.58	Delays in payments by large and medium industries are reportedly serious problems for the small scale sector, and the Ministry are well aware of them. The Committee are constrained to conclude that the Ministry have not appreciated the seriousness of this problem as otherwise they could certainly have taken up the matter with the Reserve Bank of India and commercial banks with a view to refining them already operating schemes so as to produce the desired

1	2	3
		results. The Committee would expect the Ministry to review the schemes and plug loop-holes and snags so as to ensure that these schemes fulfil the objective for which they were introduced.
80	6.59	The Committee are of the opinion that the procedure followed by DGS&D in the matter of purchases for Government departments is an ideal procedure under which 95 per cent of the payment is made on proof of despatch of goods and remaining 5 per cent on acceptance of goods by the consignee. The Committee would like the Ministry to explore the feasibility of evolving a similar payment procedure to be followed by large and medium undertakings in private and public sector in respect of goods supplied to them by small scale sector.
81	6.60	The Committee are aware that in the absence of any mandatory or regulatory support to enforce prompt payments, the efforts of the Ministry can only be persuasive and the outcome not certain in all cases. The Committee are of the positive view that any scheme to be successful in this field will have to be backed up by statutory power of intervention either by Government or by banks on whom the large and medium undertakings depend for their working capital and the like. If the small scale sector has to be helped out of financial problems created by large and medium undertakings, the sooner a suitable legislation is enacted, the better it would be.
82	6.61	The Committee would like the Ministry to examine critically all the ideas thrown up by the various bodies and evolve a multi-pronged approach to tackle the problem of delayed payments effectively without any further delay. The Committee would like to be apprised of the packet of proposals which the Ministry would like to implement in this regard.

1	2	3
83	6.62	The Committee do not agree with the DCSSI that in the absence of any communication from public sector undertakings in regard to cases of delayed payments of Small Scale Industries he could presume that there had been no case of delay in payment by public undertakings. The Committee would like the Ministry of Industry to arrange to make case studies of purchases made from small scale sector by public sector undertakings, say, during 1980, and see whether payments therefor were made within the prescribed period. The Committee would expect the Ministry to take effective measures in the light of the studies.
84	6.66	The Committee are informed that in certain cases large manufacturers charge relatively higher prices on raw materials and intermediary products from small scale units with the result that the products manufactured by small scale units become costlier as compared to the same product produced in the large scale sector. The Committee would wish that the Ministry take steps to curb the unhealthy practice with a view to safeguarding the interests of the small units.
85	6.67	Reports of large units adopting a policy of undercutting the prices of small scale units to eliminate them from the market have also been received by the Committee. The Committee would expect the Ministry to examine this matter with a view to finding a satisfactory solution to the problem.
86	6.78 & 6.79	The registration of only 8100 units with all the exchanges during a ten-year period 1970-80 out of nearly 8 lakh small scale units in the country and assistance rendered in only 30,000 cases all over India during this period and the business handled by individual exchanges during 1979-80 lead only to one conclusion that the performance of sub-contracting exchanges is poor.

1	2	3
87	6.80	<p>What else can the Committee conclude except that. The sub-contracting exchanges have been working in a lackadaisical, unimaginative and unsystematic manner and the ministry seem to have done nothing in the matter during the last 10 years. The Committee recommend that the system and methods of working of the sub-contracting exchanges which have a tremendous potential of rendering valuable service to the small scale units, could be streamlined and made result and growth oriented and their performance evaluated against targets every year and remedial measures taken to make them fulfil the objectives for which they were set up.</p>
88	6.81	<p>It is obvious that the original claim of generating business worth Rs. 33 crores through sub-contracting exchanges was without any basis and irresponsible. It amounted to giving misleading information to the Committee which the Committee cannot too strongly condemn. They would like the matter to be investigated and the outcome of the investigation communicated to the Committee within six months.</p>
89	6.81	<p>The Committee would like that the idea of an international sub-contracting exchange backed up by adequate number of regional exchanges should be translated into action without delay. The Committee hope that while setting up the international exchange and regional exchanges, the Ministry would guard against the drawbacks noticed in the working of sub-contracting exchanges already working in India and would ensure that the international exchange follows the most modern system of management and operations and develops into a useful instrument of service to the small scale sector.</p>
90	7.28	<p>The Committee think the reservation policy as now followed would not do small scale sector</p>

1

2

3

much good in the immediate future unless the production of reserved products in large sector is reduced especially in areas where much technology is not needed. The Committee are aware of the legal hurdles in this respect but these will have to be overcome if reservation policy has to be made a success. The Committee would like the Government to examine this matter with a view to arming themselves with powers to tilt decisively the production balance in favour of small scale sector, wherever possible keeping in mind the capacity and quality of production in small sector *vis-a-vis* the demand.

91 7.29-
 7.31

There are complaints of excess production in large sector in respect of tooth paste and a number of other items reserved for exclusive production in small scale sector.

The Committee would like the Ministry of Industry to go into the complaints of excess production of reserved items by large|medium sector and furnish the following information:—

- (a) List of items in which excess production has been complained of; whether any inquiry was held if so, the outcome of enquiry, in each case;
- (b) the action taken in each case of established 'excess' production and the outcome;
- (c) loopholes in the Industries (D&R) Act, efforts made by the Ministry to plug the loopholes with dates and the outcome;
- (d) the latest thinking of the Government in the matter.

The Committee would like to have specified information under these heads, item-wise, to judge the role and performance of the Ministry in protecting the small scale sector against the

1	2	3
		encroachments of large medium enterprises into the field of 'reserved' items.
92	7.32	The Committee would like the Government to deal with cases of violation of export obligations by large units in respect of 'reserved' items more stringently in order to save the small scale sector from surreptitious attempts of the large units to out-market the former.
93	7.33	The Committee are informed by the Ministry that captive capacity for manufacture of 'reserved' items by large units has been allowed by the Government. The Committee do not agree with this policy. This amounts to denial of benefit of reservation policy to small scale sector. In fact it is in such fields that ancillarisation has a role to play. The Committee would like the Government to re-examine this matter with a view to withdrawing captive capacity in large medium units for manufacture of 'reserved' items.
94	7.34	The Committee agree that State Governments should not be barred from setting up production capacity in 'reserved' items if no small scale entrepreneur comes forward to set up industrial units in these lines.
95	8.43	The Committee feel that instead of getting consolation from qualitative analysis of purchases from small sector, the correct approach would be to determine the optimum range and quantity of goods which the Government can buy from small scale sector and then to buy them from this sector and not from large sector. The Committee would like the Ministry of Industry to make such a study in cooperation with DGS&D and persuade the purchasing agencies at the Centre and the States to adopt this approach in all their purchases.

1	2	3
96	8.45	<p>The Committee regret to note that there is no system at present in the Ministry of Industry to compile information about value of purchases made by Railways and State Governments from small scale sector. Information about purchases made by Central Government purchasing organisations from small and other sectors of items reserved for exclusive and preferential purchase from small sector is also not available with the Ministry or DGS&D. In order to evaluate the progress of measures taken by Government to encourage larger participation by small scale sector in Government purchase programmes, there is an imperative need for a proper information system which should, inter alia, collect and collate data about the value of purchases made by all purchasing organisations of Central and State Governments and public sector undertakings from small scale sector <i>vis-a-vis</i> other sectors, showing separately the value of items exclusively reserved for (a) purchase from and (b) production in small scale sector. The information thus collected should be periodically analysed with a view to applying correctives, where necessary.</p>
97	8.46	<p>The Committee would like information under these heads for the years 1979-80, 1980-81 to be furnished to them for their perusal.</p>
98	8.47- 8.48	<p>The Committee have come to the conclusion that multiplicity of procedural practices at the Centre and States has prevented the small units from deriving full advantage of the exclusive purchase policy and the facilities and concessions announced by Government for the benefit of small sector. The Committee would like that the Ministry of Industry should make a concerted effort at the highest level to bring round</p>

1	2	3
		the DGS&D, State Government Departments and State Undertakings to follow the standard procedures and practices so as to ensure that the benefits intended for small scale sector are enjoyed by this sector in full measure.
99.	8.49	The Committee strongly support the demand of small scale industries that purchase contracts executed with them by purchasing agencies should include a price escalation clause to provide them protection against rise in prices of raw materials. The DGS&D, it is stated has since 1980, been showing consideration in the matter of prices in respect of items controlled by Government. The Committee would like that the procedure of incorporating price escalation clause in purchase agreements should be formalised so as to leave no scope for doubt as to the items and the extent to which it would apply. In this respect the small scale sector should be treated at par with large sector.
100	8.50	The Committee regret to note that Central Purchase Advisory Council which is constituted to review the problems faced by small industries have met only once during the last 5 years. This shows the Ministry's apathy towards the lot of small sector. The Committee would recommend that the Council at the Centre and similar bodies in the States should meet regularly at least twice a year to discuss specific problems of small units with a view to solving them.
101	8.51	The Committee regret to note that there is at present no system to monitor the price preference programme effectively and there is no regular and systematic flow of information regarding price preference accorded by purchasing organisations at the Central and State levels.

1	2	3
101	8.52	<p>The Committee were disappointed to learn that during 1978-79, when items worth about Rs. 114 crores were purchased by DGS&D from small sector, price preference accorded by DGS&D to this sector worked out to a little more than Rs. 1 lakh and in the first nine months of 1979-80, it was merely Rs. 31,000. From this it appears that price preference is perhaps no more than a myth. The Committee would urge that the Ministry should undertake a study into the working of price preference policy at Central and State levels and take measures to implement it effectively. The Committee would like to be apprised of the outcome of the study and the follow-up action taken in this regard.</p>
102	8.53	<p>Here is one more instance in which the information furnished by the Ministry of Industry in writing is different from what Secretary (Industry) stated in evidence. While the Ministry stated that "there is no regular and continuous flow of information regarding price preference accorded by various purchasing organisations", Secretary (Industry) informed the Committee in evidence that "there was an organised basis of flow of information" in this regard. What also can the Committee suggest in the circumstances except that there is need for greater coordination and cohesion at various levels within Ministry.</p>
103	9.29	<p>It is doubtful if the small scale units have a clear picture of the nature and range of testing facilities available in the scores of testing institutions spread over the length and breadth of the country and how they have to go about to avail of the facilities at the most economical cost. The Committee feel that a comprehensive guide-book is needed to explain in simple language at one place the nature, range and cost</p>

1	2	3
		<p>of testing facilities at each of these testing centres and the procedure which the small scale units have to follow to get the products tested speedily and economically. They would suggest that the Ministry of Industry should bring out a comprehensive guide-book of testing facilities and make it available to small scale units as a priced publication.</p>
104	9.30	<p>The Committee feel that there is a need to assess the usefulness and utilisation of facilities available in the Regional Testing Centres and identify deficiencies in their working because of which they have not been able to become very popular. The Committee would suggest that an assessment on these lines should be undertaken expeditiously and working of these centres streamlined and testing apparatus strengthened, if necessary, in the light of the assessment report so as to win the confidence of small scale units.</p>
105	9.31	<p>The importance of standardisation of products of small scale is too obvious to need any emphasis. A number of products are reported to have been codified and covered under the certification scheme of the Indian Standards Institution (ISI). But still there is a large gap between the number of products manufactured by the small scale industries and the standard specifications prepared for the products for certification scheme. The Committee feel that the process of codifying standard specifications should be speeded up with a view to bringing more and more products of small scale sector under the 1st certification scheme and in this process, the products which are reserved for exclusive production in the small scale sector should be given priority.</p>

1	2	3
106	9.32	The Committee are informed that elaborate testing facilities are required before introducing standardisation of the products of small scale sector, but at present testing facilities are not adequate nor within easy reach of the small scale units. In this context the proposal to set up 50 Field Testing Stations during Sixth Plan is not only very timely but if implemented judiciously, can also full the gaps in testing facilities in various regions. The Committee recommend that these Field Testing Stations should be so located that relevant testing facilities became available to clusters of small scale units in all parts of the country at their door steps. In this process, the needs of less developed areas should be given due consideration.
107	9.33	The Committee feel that it should be possible for Ministry of Industry to go into the cost aspect of the standardisation scheme and devise measures to make it financially less burdensome and thus attractive for small scale units to go in for standardisation of their products.
108	9.34	The Committee consider the introduction of compulsory quality control scheme in respect of some domestic electrical appliances as a step in the right direction even though the Ministry find it administratively difficult to implement. The Committee feel that the Ministry should take measure to overcome the administrative difficulty experienced in implementation of this scheme and gradually extend the scheme to other product groups, one after the other, in accordance with a priority list to be drawn up by the Ministry.
