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Policy Intervention in Small Scale Industries: A Historical Perspective

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Abstract

The Small Scale Industry sector provides a panacea for less developed countries which aspires for higher growth in the face of shortage of capital, infrastructural bottlenecks, and a dearth of resources. The development of this sector hinges on the synchronized efforts of the governments, financial institutions and the entrepreneurs. There have been policy interventions undertaken by the state to promote this sector both in the pre-independence period and also after India secured its independence. Although some opportunities emerged for indigenous entrepreneurship in selected areas under the patronage of the colonial government however there was no systematic or deliberate approach on part of the British to revive, promote or develop Indian indigenous industries.

After independence, state intervention for the development of the small-scale industries in India was policy-specific aiming at varied objectives. The broad policy thrusts was to expand the capability of small and micro enterprises, to generate employment, promote exports, further the process of rural industrialization, and facilitate the development of appropriate technologies and new enterprise. Post-independence, SSI sector has been assigned a special status partly due to ideological reasons and partly due to social realities that created political compulsions.

Successive state policies were implemented to inject more vitality and growth impetus to the SSI sector so that it could contribute to the economy in terms of output, employment and exports. Deregulation, de-bureaucratization and simplification of rules, regulations and procedures in establishing and maintaining small units were made.

The MSMED Act, 2006 provided for the first ever legal framework for recognition of the concept of 'enterprise' and integrated the three tiers of micro, small and medium enterprises. The Act aimed at imparting greater vitality and growth impetus to the three categories of enterprises in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness. The enactment of this historic MSMED Act represents a paradigm shift where the policy of protection has now been replaced by the policy of promotion of SSI sector.

Keywords: Small scale industry; Capital; Entrepreneurship; Enterprise; Policy; Employment

Introduction

The Small Scale Industry (SSI) sector provides a panacea for less developed countries (LDC) which aspires for higher growth in the face of shortage of capital, infrastructural bottlenecks, and a dearth of resources. The development of this sector hinges on the synchronized efforts of the governments, financial institutions and the entrepreneurs. It is basically the entrepreneurs, who with the help of other two can promote entrepreneurship which is the basis of successful and sustainable establishment and operation of SSI units. The SSI sector covers a wide spectrum of industries categorized under small, ancillary, tiny, small scale service & business enterprises, women enterprises and cottage segments which are viewed to be complimentary to the medium and large-scale industries. Thus the rate of economic growth of a region is directly correlated to the rate of development of SSI sector as it, together with the medium and large scale sector provides a great synergy which is critical for generating the momentum necessary for sustainable growth. The importance of the SSI sector lies in the fact that unlike the other two sectors, it has the potential to generate gainful employment at low capital cost, create and sustain an entrepreneurial base, induce regional dispersal of industrialization in rural and backward areas which is so necessary in LDCs.

The paper seeks to provide a historical perspective on the SSI sector in India. It focuses on the policy interventions undertaken by the state to promote this sector both in the pre-independence period and also after India secured its independence. The post-independence period is broken down into the pre-liberalization era and the paradigm shift in state policies following the economic reforms in 1991.

The Early Years

India had a glorious past of sophisticated handicraft industries and her traditional village economy was characterized by a harmonious blending of agriculture and handicrafts. However industrialization in modern sense never took place in this part of the world till the arrival the East India Company. The Industrial Revolution in the eighteenth century had a great impact in the world economy as a whole which changed the character and composition of foreign trade of countries like India. In the early days of British rule, the East India Company paid some attention to the growth of industries since many Indian industrial products figured in their exports. The Famine Commission of 1880, the Industrial Conference held in 1908 and the Industrial Commission of 1916 advocated a larger share of government expenditure in industrial activities in India to make the country industrially better equipped. After the First World War, Government of India Act, 1919 made industries a provincial transferred subject influenced by the Indian Industrial Commission (1916-18) which had expressed itself in favor of protectionist policies for developing modern industries in India. This policy also found support from the Fiscal Commission, 1921 which advocated grant of fiscal protection or 'discriminatory protection' to

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deserving industries in the initial stages of development or in cases where they were under pressure from unfair foreign competition. This policy of discriminating protection induced some noticeable acceleration in industrial development in that period.

Looking at the history of India's manufacturing sector during British rule, one finds that India's small-scale indigenous handicrafts had to compete with the Europe's large-scale production of machine-made goods on an unequal playing field where the 'East-India Company and the British Government at home adopted a policy of crippling the native industries' through the promotion of export of industrial raw materials out of India and dumping in it British manufactured goods. However the effects of imports were not always identical for all sectors of the economy. As Desai [1] quotes the Indian Industrial Commission, 'the effect (of imports) on small industries in India has been considerable, but has not always been in the same direction. The import of brass-sheets, for example, has reduced the demand for the services of the brass founder, but has greatly extended the business of the maker of brass hollowware….' But more importantly the British domination led to the disintegration of the village community partly by the introduction of the land revenue system and partly by the process of commercialization of agriculture. British destroyed the institution of India's handicrafts but did not care to provide an alternative source of employment. The trend of the dependence of the growing numbers of the working force on agriculture is described as progressive ruralization or de-industrialization of India. 'The resultant crisis in handicrafts and industries seriously crippled Indian agriculture' [2].

Gandhian concept of swaraj played an important role in the growth and development of khadi and village industries. The impact of this 'swadeshi' campaign, that is, emphasis on the use of Indian indigenous goods was proverbial. Gandhiji's profound understanding of Indian psyche and his great leadership in the freedom movement helped him in getting a resolution adopted in the 1919 Congress Session in Amritsar recommending revival of the ancient industry of hand spinning and hand weaving categories. This resolution was in the nature of a moral exhortation and in the following year, Khadi Policy was made an integral part of the movement for boycott of foreign cloth. However it was soon realized that khadi was unable to meet the domestic demand for textiles. Handloom cloth woven from yarn produced by 'approved' Indian mills was considered to be the viable alternative. This provided a seedbed for inculcating the spirit of nationalism in the relatively few local textiles firms, with Jamshedji even naming his first mill as Swadeshi Mill.

Many authors have attributed the failure of an earlier Indian take-off to both the British rule and the lack of entrepreneurship in India. Desai [1] considers the 'organizational weaknesses' of Indian handicrafts responsible for its demise as they 'did not organize themselves effectively to meet the new challenges nor did they care to invent and adopt new and better methods of production.'

It is also seen that some opportunities emerged for indigenous entrepreneurship where patronage of the colonial government was extended to those areas where the British had a vested interest. However there was no systematic or deliberate approach on part of the colonial power to revive, promote or develop Indian indigenous industries.

The Dawn of Independence: The Initial Effort

After independence, state intervention for the development of the small-scale industries in India was policy-specific aiming at varied objectives. The broad policy thrusts was to expand the capability of small and micro enterprises, to generate employment, promote exports, further the process of rural industrialization, and facilitate the development of appropriate technologies and new entrepreneurial skills' [3]. But the main philosophy behind most interventions in small-scale industries has been to protect them from the unequal competition of medium and large-scale industries.

Post-independence, SSI sector has been assigned a special status 'partly due to ideological reasons and partly due to social realities that created political compulsions. Ideological commitment to a 'socialistic pattern of society' and the consequential stress on equity required (a) creation of broad-based employment opportunities and (b) wide dispersal of industrial production' [4]. The small-scale industries are labour- intensive in nature and they act as a positive catalyst to enhance the income of the artisans and thereby the quality of life of the people. As the Indian village and cottage industries greatly suffered during the British rule, it was a kind of 'political compulsion' on the part of the democratic Indian government after independence to revive village and small industries in order to rehabilitate the displaced artisans and to avoid further technological unemployment.

Considering the importance of the SSI sector, its growth has been properly nurtured over the plan period through policy of protection and reservation of items. These policies include: various incentive measures, concessions, encouragement to the growth of the ancillaries, liberalizations of the terms and conditions of financial assistance from financial institutions, special incentive for setting up industries in backward and rural areas, various types of subsidies, special marketing facilities and provisions for import of raw materials and machineries and equipment. Even the 'mechanism of changing definition of the SSI units from time to time so as to widen their scope and give them a competitive stature has been, as to have seen, another characteristic feature of the policies on small-scale industries in India' [5].

The first comprehensive industrial policy announced by the Government of India, after independence, was the Industrial Policy Resolutions (IPRs), 1948 which identified the critical role of the cottage and small-scale industries. This Policy advocated that the expansion of these industries would depend on the factors like supply of raw materials, cheap power supply, technical advice and organized marketing of the products. 'It reserved the strategic and almost all-infrastructure industries exclusively for the public sector. The only complete reservation for the private sector was the cottage and small-scale industries' [6]. Borkakoti speculated, 'probably the planners took the cue from Japan. They saw that the idea of developing these sub-sectors as complementary to the large-scale industry had clicked in Japan'. But the first five-year plan launched in 1951 had the objective of development of agriculture and heavy industries and 'the SSI sector distinctly took a back seat. And, given the inadequacy of funds, only a few steps could be taken during the first plan period to implement the policies enunciated in 1948 in respect of the SSI units.

The Industries (Development and Regulation) Act was passed in 1951. It treated SSI as 'undertaking'. The IPRs, 1948 and this Act could be said to have laid the foundation of the small-scale industries and assigned a pivotal role to them in the national economy. In 1952-53, five boards were set-up for handloom, handicrafts, coir, silk and village industries on the recommendations of the Cottage Industries Board. In 1953-54, the 'International Perspective Planning Team' sponsored by the Ford Foundation in its report commented that there was ample scope for the expansion of the SSI sector in India Accepting those recommendations, the Government of India accordingly set-up the Central Small Industries Organization (CSIO) and the Small-Scale Industries Board in 1954-55. The Small-Scale Industries Board provided the first working

definition of a small-scale industry unit in 1955 in terms of the number of employment and the use or non-use of power and capital assets. The Board defined a small-scale industrial unit as 'an unit employing less than 50 persons, if using power and less than 100 persons without the use of power, and with capital assets not exceeding Rs. 5 lakh'. In the IPR, 1948, 'special emphasis was laid on the development of cottage and small-scale industries which culminated in steps taken to design as suitable tariff policy, taxation policy and also for maintaining sound industrial relation between management and labour [7].

With the experience of the first five-year plan in India, the Second Industrial Policy Resolution, 1956 were announced. It also made provisions for the development of cottage and small-scale industries by limiting the volume of production of the large-scale industries, imposing differential taxation, providing direct subsidies and establishment of industrial estates. These measures were expected to enhance the competitiveness of the small-scale sector through modernization of the technique of production. Rural electrification and power at affordable prices was extended to induce the development of the SSI sector and to further facilitate their operation industrial cooperatives were set up. 'Though modest in nature, the groundwork for assigning special attention to the SSI sector was done with the implementation of the IPRs, 1956' [8].

Although the IPR, 1948, the Industries (Development and Regulation) Act, 1951 and IPR, 1956 stressed on the critical role of the SSI sector in India's development process, yet in practice the extent of intervention was relatively negligible which failed to facilitate the expected development of the SSI sector. The prevailing License Raj at that time was acting as the biggest inhibitor to aspiring entrepreneur who wanted to set up small production units with corruption, bureaucratic red-tapism and favoritism ruling the roost. Another difficulty encountered was the lumping together of operational units of different sizes as SSI units, despite dissimilar scale of production requiring contrasting state intervention that had to be addressed by size specific policies. A standard policy administered on all SII units without considering their size, absorptive capacity and requirements made state interventions in many ways irrelevant and hence ineffective. The problem was made worse by the centralized nature of the intervention which failed to account for local complexities which needed special treatment. However the biggest challenge for the SSI units was to secure and retain markets for their products. This was made more difficult by the growing urbanization and modernization of the country and the accompanying change in taste and preferences which the bigger manufacturing houses found easy to respond.

The New Industrial Licensing Policy was announced in 1970, which removed some demerits of the Industries (Development and Regulation) Act, 1951. 'Projects involving investment up to Rs. one crore were exempted from license requirement. A liberal procedure was offered for investment up to Rs.5 crore' [6]. Subsequently when the Janata Government came into power in 1977, the New Industrial Policy, 1977 was announced. 'The main thrust of the Policy was the effective promotion of cottage and small industries widely dispersed in rural areas and towns. In this policy, the small-sector was classified into three groups-cottage and household sector, tiny sector and small-scale industries. The Policy expanded the list of items from 180 to 807 items. The Policy also recommended the establishment of District Industries Center (DIC) in every district head quarter and also 'Tiny Industrial Sector'. It also recommended revamping the Khadi and Village Industries Commission and also for widespread application of suitable technology for small-scale and village industries. The Policy also proposed to develop small machines and devices to enhance the productivity of the workers in small-scale industries. The government decided to help the small, village and cottage industries by making it mandatory for the government departments and public sector undertakings to purchase some items from these industries. The Policy took serious note of the state of affairs that emphasized on the growth of large industries neglecting cottage industries completely. The Policy stated that 'it is the firm policy of this government to change this approach'. The government declared that 'whatever could be produced by small and cottage industries must only be so produced'. An annual review of reserved industries was to be undertaken in order to ensure that reservation accorded to the small sector was efficient and products capable of being manufactured in the small-scale were identified [8].

Industrial Policy, 1980 was designed considering IPR, 1956 as its basis. In view of the price escalation, it redefined the concept of small-scale unit increasing the investment limits in terms of plant and machinery for (i) the tiny unit, from Rs. 1 lakh to Rs. 2 lakh, (ii) the small-scale unit, from Rs. 10 lakh to Rs. 20 lakh and (iii) the ancillaries from Rs. 15 lakh to Rs. 25 lakh. This step was expected to eliminate the tendency to circumvent the present limit by under estimating the value of machinery and equipment, falsification of accounts or resort to benami units. This enhancement of the limit was expected to help the genuine small-scale units set up by qualified entrepreneurs. This measure was expected to facilitate the long overdue modernization of the existing small-scale units. The Policy also provided some facilities like financial support to small-units, buffer stocks of critical inputs for small units, marketing support and reservation of items for small-scale industries.

Despite the reforms induced by the New Industrial Licensing Policy, 1970 and Industrial Policy, 1980 the SSI were still in the stranglehold of bureaucratic rigidity , excessive regulations and control and a complex web of modalities for establishment which made life difficult for existing enterprise while at the same time severely inhibited aspiring entrepreneur from entering the industry. With the changing market dynamics, the limit set in the size of operation was also proving to be a constraint which required immediate revision.

One of the biggest obstacles to growth and sustainability of entrepreneurship was the inadequacy of credit. The inability of the SSI units to access the capital market for funds was acting as a huge deterrent to their growth aspirations which required an immediate resolution. In fact there was a growing need for formally devising a preferential credit policy especially for the SSI units as most banks exhibited a brazen bias for urban large scale industries in extension of credit.

Economic Reforms of 1991 and the Small Scale Industries

The New Industrial Policy announced in July, 1991 had the basic objectives to 'unshackle the Indian industries economy from the cobwebs of unnecessary bureaucratic control', to introduce liberalization with the view to integrate the Indian economy with the world economy, to remove restrictions on foreign direct investment, and to liberate the domestic entrepreneurs from the restrictions of the Monopoly and Restrictive Trade Practices (MRTP) Act, 1970. A major paradigm shift in the new policy was to recommend the dissolution of public sector enterprises that were chronically loss making and unviable. Besides it recommended disinvestments in those units with very low rate of return or losses. The new industrial policy served as a turning point for the Indian economy and enabled the Central Government had to take a series of initiatives in the areas of industrial licensing, foreign investment and technology, public sector, MRTP limit etc. This facilitated the restructuring of the economy and revival the industrial sector in the country.

The announcement of the New Small-Sector Industrial Policy in August, 1991 entitled Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises was a major policy initiative in view of the process of economic reforms initiated in Indian economy in 1991. The objective of the Policy was to inject more vitality and growth impetus to the SSI sector so that it can contribute to the economy in terms of output, employment and exports. Deregulation, de-bureaucratization and simplification of rules, regulations and procedures in establishing and maintaining small units were made. Substantial de-licensing was made in the Policy. The investment limit in fixed capital asset for tiny enterprises was raised to Rs. 5 lakh, irrespective of the location of the unit. To have access to capital market and to encourage modernization and technological up gradation, equity participation up to 24 percent including foreign company was allowed. Proposed limited partnership organization of this policy was expected to attract equity investment in SSI sector. Establishment of a special monitoring agency to oversee the genuine credit needs of the SSI sector was also proposed. The problem of delayed payments to small industries was also addressed by setting up 'factoring' services through the Small Industries Development Bank of India (SIDBI). A suitable legislation was to be introduced to ensure prompt payment of small-industries' bills. Setting up of a Technology Development Cell (TDC) in the Small Industries Development Organization (SIDO) for providing technology inputs for the improvement of productivity and competitiveness of the products of the SSI sector was also proposed in the Policy. The Policy also made provisions for encouraging and increasing market share of the SSI sector through cooperatives, public institutions and other specialized professional or marketing agencies and consortium approach. The Policy also emphasized on the adequacy and equitable distribution of indigenous and imported raw materials for the sector.

Acting on the policy report the government adopted some policy decisions for the promotion of the sector. For example, 'restriction in registering new SSI units for the manufacture of certain products was disbanded; the eligibility limit of projects under National Equity Fund Scheme was doubled from Rs. 5 lakh to Rs. 10 lakh; the Single Window Scheme was extended to be operated by the scheduled banks in addition to state financial institutions. An ordinance was promulgated on 23rd September 1992 making payments of interest obligatory on delayed payments to small-scale and ancillary industrial undertakings. However, this Policy left a huge lacuna in the fact that it has not given due importance to the widespread phenomenon of industrial sickness nor recommended any effective measures for it prevention.

Another significant development in the sphere of SSI sector was the setting up of the Nayak Committee by the Central Government to examine the problems of credit, sickness and some other issues. The Committee submitted its report in September 1992. A special package of measures to ensure and timely credit to the SSI sector was announced by the Reserve Bank of India in July, 1993 which assigned preferential treatment by the commercial banks to the village and tiny industries meeting the credit requirements of the SSI sector. The package also contained the steps for credit flow to the sector to meet the legitimate requirements including adoption of the Single Window Clearance Scheme of the SIDBI. The Policy had also the provisions for technology upgradation, export development, equity support to small-scale industries. After announcing this package in 1993, a new scheme of Integrated Infrastructure Development was introduced to develop the infrastructure facilities in 50 centers in rural and backward areas; the concessional rate of excise duty available for units with a turnover of Rs. 30 lakh to Rs. 75 lakh per annum was extended to the non-registered sector. A quality Certification Scheme was launched in 1994 to improve the quality standards of SSI products [7].

Post Reforms: The Aftermath

In the post-reform period, various steps have been taken so that the tiny industries and the small-scale industries can acquire necessary strengths to face global competition though technology upgradation and modernization. Although some improvements have been witnessed in different areas, the overall growth scenario has not been satisfactory. A study group on development of small enterprises called Gupta Study Group was constituted in May, 1999 which submitted its report in 2001. The Group recommended a three-tier definition of tiny, small and medium enterprises. It defined a tiny unit with investment in plant and machinery up to Rs. 10 lakh and SSI unit with fixed investment limit between Rs. 10 lakh to Rs. 1 crore. However in case of modern enterprises, the investment limit in fixed assets was recommended to be from Rs. 1 crore to Rs. 10 crore. The Group recommended maximum support and protection to tiny units, somewhat lesser support to SSI units and no facilities to the medium enterprises except credit for modernization from a separate fund [2]. The revision of investment ceiling was suggested and justified on the ground of inflation and it was suggested that the term 'small-scale industry' be replaced by 'small enterprises' covering all the three segments of tiny units, small-scale industrial units and service and business enterprises. It felt the need for a single comprehensive law for SSI sector and favored the continuation of reservation for small-scale sector. It also made a number of recommendations on fiscal and financial measures including setting up targets for banks for extension of credit to tiny and SSI units, setting up of a special venture capital type fund of Rs. 500 crore as Laghu Udyog Nirman Nidhi and also on the need for restructuring of state financial corporations etc. The study group also recommended some measures for technology upgradation and modernization of SSI units and marketing of SSI products. Some of these are: setting up of 'Technology Bank' for information about the technology needed; setting up of a 'Technology Upgradation and Modernization Fund' of Rs. 5000 crore with an interest subsidy of 5 percent; government purchase from the SSI sector up to 33 percent as done in the U.S.A. etc.

The Central Government announced a package of measures for development of the SSI sector on the basis of the recommendations of the Gupta Study Group in August 2000. In subsequent periods, there were some important developments in the SSI sector in the country. These include reservation of 75 items for exclusive manufacture in the SSI sector that were de-reserved and selective enhancement of investment in plant and machinery from Rs.1 crore to Rs. 5 crore in respect of 23 items in June, 2003. In compliance with the announcement made in the Union Budget 2003-2004, all public sector banks adopted the norms of providing credit to SSI sector with in an interest rate band of 2 percent above and below the prime-lending rate. The composite loan limit for SSI sector was enhanced from Rs. 25 lakh to Rs. 50 lakh. The lower limit of Rs. 5 lakh on loans covered under the Credit Guarantee Scheme was removed. All loans upto Rs. 25 lakh were made eligible for guarantee cover under the Credit Guarantee Scheme. To address the problem of inadequacy of financial resources at highly competitive rates for the SSI sector, a Small and Medium Enterprises Fund (SMEF) with Rs. 10,000 crore under SIDBI was set-up. In addition Laghu Uddyami Credit Card Scheme was liberalized with enhanced credit limit of Rs. 10 lakh (increased from Rs. 2 lakh) for borrowers with satisfactory track records [9].

More policy intervention were administered during 2004-05 which included setting up of the National Commission on Enterprises in un-

organized / informal sector; de-reservation of 193 items for exclusive manufacture in the SSI sector; enhancement of investment limit in plant and machinery from Rs. 1 crore to Rs. 5 crore in respect of some items; enhancement of the composite loan limit for the SSI sector from Rs. 50 lakh to Rs. 1 crore and formulation of a new 'Promotional Package for Small Enterprises'.

The micro, small and medium enterprises development (MSMED) act, 2006

The MSMED Act, 2006 was enacted by the Government of India which 'seeks to facilitate the development of Micro, Small and Medium enterprises and also enhance their competitiveness in domestic and global market. The Act provided for the first ever legal framework for recognition of the concept of 'enterprise' and integrated the three tiers of micro, small and medium enterprises. The Act provides for a statutory consultative mechanism at the national level with balanced representative of all sections of stakeholders, particularly, the three classes of enterprises and a wide range of advisory functions. The aims and objectives of the Act include; 'imparting greater vitality and growth impetus to the micro, small and medium enterprises in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness'. Apart from strengthening competition by establishing an appropriate legal and regulatory framework and removing barriers to competition and trade, the Act also focuses on facilitating investment and trade by strengthening the framework governing the policy, credit facilities, grants, administration and utilization of fund, development of skill of the employees, management and entrepreneurs, provisioning for marketing assistance or infrastructure facilities and cluster development of such enterprises with a view to strengthening backward and forward linkages.

Enterprises under this Act have been broadly categorized into (i) manufacturing enterprises and (ii) service enterprises. Both the categories have been again classified into micro, small and medium enterprises (SMEs). In manufacturing category, enterprises are defined in terms of investment in plant and machinery. The investment limit for micro enterprises is fixed at Rs. 25 lakh, small enterprises above Rs. 25 lakh to Rs. 5 crore and medium enterprises above Rs.5 crore to Rs.10 crore. The service enterprises engaged in providing or rendering of services are defined in terms of investment in equipment. Here, the investment limit for micro enterprises is fixed at Rs. 10 lakh, small enterprises above Rs. 10 lakh to Rs. 2 crore and medium enterprises above Rs. 2 crore to Rs. 5 crore.

The MSMED Act is applicable to all the micro, small and medium enterprises. The Act also empowers the state governments to specify by notification that provision of labour laws would not apply to SMEs employing up to 50 people. This is intended to facilitate the graduation of small enterprises to medium enterprises. One of its primary objectives is to make provisions for ensuring timely and smooth flow of credit to SMEs to minimize the instance of sickness among them. The Act empowers the Central Government and state governments to notify preference policies in respect of procurement of goods and services produced and provided by small enterprises, by the ministries, departments and public sector enterprises. The Act also empowers the Central Government to create a fund to facilitate the promotion, development and competitiveness of SMEs. This new Act replaced the existing non-statutory SSI Board along with the earlier two-stage registration process of micro and small enterprises by filling of memoranda.

Given the comprehensiveness of the Act and the empowerment it seeks to impart to the SSI sector the enactment of this historic MSMED Act is expected to bring about a major structural change in Indian manufacturing sector. There would be a close scrutiny on the growth of micro, small and medium enterprises under this Act, which has addressed a number of issues for the first time since independence in a systematic manner. The challenge of the Act lies in the fact that it seeks to enhance the competitiveness of micro, small and medium enterprises in an environment of economic liberalization and globalization.

Conclusion

State intervention in the development of small sector industries after independence may be broadly divided into the pre-liberalization period (1948 to 1991) and the post- liberalization period (1991 onwards). Although a kind of restrictive and protective policy was maintained for more than half of a century for the country's industrial sector until the process of economic liberalization was initiated in 1991, the small scale industry sector was always given due importance in all the industrial policy resolutions. The Industries (Development and Regulation) Act, 1951, which provided the basic framework for the post-independence industrialization strategy clearly put a high priority on small scale industry sector. This had been maintained in the New Industrial Policy of 1991. Since 1991, Indian economy slowly witnessed a paradigm shift from a centrally planned economy towards a strategy of promoting privatization, liberalization ad globalization though a process of economic reforms [10]. In that scenario, the small-scale sector has been offered ample opportunities to grow and promote themselves so as to attain competitive efficiency enabling them to coexist with the larger industries. The enactment of MSMED Act, 2006 has been another milestone in the history of India's industrialization which focused on micro, small and medium enterprises. Here there had been a paradigm shift where the policy of protection has now been replaced by the policy of promotion of SSI sector, which now also covers medium scale enterprises. The MSMEs are widely considered to be a panacea for a number of burning problems given their immense potential in the promotion of output, employment and export earnings. But, history of the manufacturing sector had been replete with many instances of policy interventions which had not resulted in the expected outcome. Thus in the coming days effective execution of these policy packages constitutes a serious challenge to the planners and the respective central and state governments.

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