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REPORT

OF

JAPANESE DELEGATION

ON

SMALL SCALE INDUSTRIES

1959

MINISTRY OF COMMERCE & INDUSTRY
GOVERNMENT OF INDIA

CONTENTS

December 9, 1959.

To His Excellency Manubhai Shah,

Minister for Industry.

Your Excellency,

We hereby submit to Your Excellency a report which we have prepared as the Japanese Delegation on Small Scale Industries, at the request your government. This report, being an outcome of the on-the-spot survey we conducted, from August 4, to September 6, 1959, of the small scale industries in your country as well as of the various promotional measures being taken for these industries, contain several recommendations on steps towards improvement we have worked out in the light of similar experiences in our country.

In this connection, however, it must be noted that the period of our survey had to be very brief, and, furthermore, there were language barriers. It is therefore feared that the report might contain opinions which convey wrong impressions of the actual situation or which are found too idealistic. On the other hand, it may also be conceivable that foreigners, who have no direct interests or preconceived ideas, may be able, by intuition, to observe the matter in an unprejudiced and objective manner.

We received, wherever we went, from all quarters, heart-warming hospitality, both governmental and private. So, in compiling this report, we have done our best to measure up to this cordial welcome.

It is ardently hoped that this booklet will prove instrumental in some way or other in the promotion and development of the small scale industries in your country, and thereby contribute to the furtherance of friendly relations that happily exist between our two nations.

In closing, let us express our deep gratitude once again for the many marks of friendship shown by the Central and State Govern-

ments and private organizations and firms during our stay in your country. We wish them every success in their work on the small scale industries.

TERUHIKO IWATAKE,

Leader of the Japanese Delegation on Small Scale Industries.

for the Members :

T. Arai

T. Izuchi

K. Yasue

Y. Wakamoto

CHAPTER I

INTRODUCTION

1. Foreword

Our delegation arrived in August 4 in New Delhi, where we were briefed by Central Government officials on the situation of the small-scale industries there.

After visiting various *facilities* in this Indian capital, we proceeded to various other parts of the country, accompanied by the Department officials. The places we visited included Ludhiana (Punjab), Lucknow, Banaras, Agra (Uttar Pradesh), Bombay (Bombay), Bangalore (Mysore), Madras (Madras), Calcutta, (West Bengal), Bhubaneswar (Orissa), Shillong, Gauhati (Assam), Patna (Bihar), Bhopal (Madhya Pradesh), Hyderabad (Andhra Pradesh), Srinagar (Jammu & Kashmir) and Jaipur (Rajasthan).

While visiting industrial facilities in these areas, we had meetings and exchanged opinions with State Government officials.

At the same time, we also had opportunities to meet members of chamber of commerce and industry and other private organizations concerned as well as to visit many small scale units. (refer the appendix for our trip schedules)

We are very grateful for Central Government officials, especially, Mr. L. N. Renu, Development Officer of the Office of Development Commissioner, Ministry of Commerce and Industry, Mr. D. N. Saraf, Director of All-India Handicraft Board, Ministry of Commerce and Industry and Director of Industries and other officials of each State Government, for kindly arranging these inspection trips and meetings.

Lengthy and animated discussions featured meetings at State Government offices, mostly attended by the Minister for Industry, Director of Industries and representatives of the Small Industries Service Institute, State Finance Corporation, State Bank of India and other Government agencies. At these sessions, we, members of the mission, questioned the Indian representatives on the peculiarities of small-scale industry in each state, the Minister's administrative policy, activities of cooperatives, the financial situation, activities of the S.I.S.I. and difficulties confronting the small-scale industry.

Meanwhile, the Indian attendants questioned us on the development of smaller enterprises in Japan, particularly, the organization of cooperatives, financial policy, method of quality control and

marketing and the labour situation. Especially enthusiastically posed by representatives of finance organizations in Bombay were the questions about Japan's credit guarantee system.

We are convinced that such discussions mean a great deal to the two sides to get acquainted with the status of small units and Government's policy in each other's country. Through such comparative studies, we can obtain a clear picture of the situation and Government's policy regarding small-scale industries in our country.

Among the facilities we inspected in India are the Industrial Estate, S.I.S.I., various Training and Design Centres, Common Facilities, Emporia, and State Depots. Our visits to these facilities helped us a lot in understanding the Indian Government's industrial measures, of which they are the embodiments.

During our stay in India, we visited more than 50 small-scale units and cooperative societies covering a wide range of industrial categories.

These visits enabled us to learn in detail the progress in mechanization of India's small-scale units, their technical level and the quality of their products.

One of the biggest fruits may be that we could acquaint ourselves with the activities of cooperative societies quite different from those in Japan.

The small-scale units we visited, of course, account for only a very small percentage of small-scale units in India. It is not appropriate or scientific, therefore, to regard our findings as completely indicative of what the small-scale industry in India is. Nevertheless it may be true that we have just obtained an idea or a vision of India's industrialization project, especially in the small-scale industry. Without this vision, however, it is impossible to say anything about the Indian industry, so be it advised that this report has been prepared with this vision in mind.

No less instructive for us than our on-the-spot survey of Indian plants were the questions and answers at our meetings with members of chambers of commerce and industry and other organizations. We took all these occasions to explain the status of small-scale enterprises in Japan and the Japanese Government's policy in reply to questions posed by the other side. In this connection, we should like to add that many questions were asked and great hopes expressed by the Indian attendants on Japan's cooperation and assistance in the development of the Indian small-scale industries.

Questions asked in most of the states we visited were almost similar in substance. They may be itemized:

1. Causes of development of Japan's small-scale industries;
2. Japanese Government's policy to promote small-scale industries, especially the types of Government subsidies;
3. Financing for the small-scale industries and relationships between high interest rates and business profitability in Japan;
4. Outline of the credit guarantee system in Japan;
5. Cause for the emergence of subcontracting relations in Japan and Government's policy;
6. Labour situation in the small-scale industries in Japan (wage level and gap, labour unions and strike);
7. Methods of quality control in Japan, especially JIS (Japan Industrial Standard) plant system;
8. Set up on the Japanese side to receive Indian trainees.

Through this exchange of questions and answers, we believe, we could learn, though vaguely, how eager the Indian small-scale industrialists are to know the conditions of their Japanese counterparts and to secure the latter's assistance and what attitude these Indians assume towards management. This was no less important than the results of our plant inspection, for information on the basic attitude of the industrialists, as well as an objective judgment as to the current status of small-scale units, is a pivotal factor in studying the development of such units and the Government's measures.

In any country, small-scale industries are a product, about all else, of social and historical developments. This renders it very difficult for foreigners to have a correct understanding of them.

This is what we have experienced during the seven-year Occupation of Japan. It may not be too much to say that it would be next to impossible for us to obtain a clear picture of India's small-scale industries during our only one-month stay there.

So we are afraid that our observations might be superficial or somewhat prejudiced. However, Japan, troubled by the small-scale industry problem, similar to that of India, has nearly 30 years of experiences in this particular field.

Although it is premature to say positively that the small-scale industry policy in Japan has produced satisfactory results, we

believe it is understood in your country that no less adequate measures than those in most other countries have been taken for the industry in our country.

Now, we should like to describe the impressions we gained during our stay in India. The work of describing such impressions was shared by our mission members, but please be advised that all the descriptions are based on the consensus of views of all the mission members reached after exhaustive discussions during our stay in your country.

The descriptions are divided into:

Chapter I Introduction by Iwatake

Chapter II Industrial Statistics by Arai

Chapter III Organization by Izuchi

Chapter IV Finance by Yasue

Chapter V Technical Facilities by Wakamoto

Chapter VI Miscellaneous by Iwatake

These descriptions contain some suggestions for improvements, which we believe can be carried out within several months or those which may be practicable only when scrupulous preparations are made or when certain conditions are met. For us who know little about the actual situation there, however, it is impossible to give advice as to when the given suggestions should be put into practice. As a matter of course, emphasis in our studies, is laid on conducting preparatory operations whereby to eliminate the obstacles to the development of India's small-scale industries and facilitating their development, assuming what course they will follow several or dozen more years hence. In other words, our report is based on a long-range view in which to list the measures that should be taken on a priority basis. Naturally, some of our suggestions may seem to be too ideal and impracticable for the present.

We wish to add, therefore, that it is entirely up to your Government to adopt our suggestion and decide when and in what order they should be translated into action. We wish to add also that some of them may be nothing new, and may have been adopted in some of your states or may be planned by your government for enforcement.

If such are really the case, it is highly gratifying, for it practically means that your Government's and our measures are identical with

each other. In fact, we are just stating some of our impressions gained in your country with reference to our experiences, and we have no intention whatsoever of recommending new and exotic ideas.

We presume that it may be necessary for your government collaboration in adopting and giving effect to the suggestions described in this report. It is desirable that these detailed matters will be solved through exchange of experts on particular fields. This report only gives a broad idea of what should be done to improve the small-scale industries in India.

Nothing will be more pleasing for us, as delegation, if your Government gives understanding consideration to our observations and incorporates our suggestions into its measures so as to promote the development and prosperity of the small-scale industries. At the same time, we venture to presume that this will also be the desire of Government officials and small-scale industrialists in each State who warmly received us and tried in real earnest to learn the small-scale industry situation in Japan. In writing this report, we recall vividly those people and appreciate them for providing us many things to learn.

II. Some Impressions of the Government Policies on the Small Scale Industries

(1) It may not be too much to say that most of the Small unit measures in India except those for co-operatives and Training Centres began to go into effect under the second Five-Year Plan. One proof of this fact is that the Government's appropriations for small scale industries, which stood at only 310 million rupees under the first Five-Year Plan, were sharply increased to 2,000 million rupees under the second Five-Year Plan. But it must be noted that the bulk of such appropriations are for the village industry, while only 30 per cent or 610 million rupees is earmarked for the small-scale industries.

Speaking fairly and frankly, the small-scale industry policy of India is worked out with much scrupulousness in various phases. We dare say few counterparts can be found in the world in the number of items and in the elaborateness of their contents. In some aspects, we were first surprised to find that the policy was made up of a larger variety of measures than its Japanese counterpart which, we boast, goes ahead in the world. Needless to say, this is to respond to the importance of the small-scale industry in India and the peculiar processes in which it has been developing.

For this, we tender deep appreciation to the elaborate consideration of the Indian Government authorities.

But this does not mean that the Government measures on the small-scale industries are satisfactorily spread far and wide in India. Our impression is that such policies have just got started with most of the measures in effect for only two or three years.

For instance, the National Small Industries Corporation is charged with interesting tasks covering a wide range of fields, but, we should say, it has not yet scored the desired results except on hire-purchase of machinery. A similar thing may be said of the State Financial Corporations and the State Bank of India, whose main function is understood to supply long-term loans and operational funds to small-scale enterprises. For their functions have not yet been brought home to small industrialists and very few have started on the right lines and shown considerable records of loans made to the small-scale units.

Meanwhile, small industries service institutes (S.I.S.I.) are functioning comparatively well in most districts, and yet there is much to be desired in obtaining machinery, buildings and able engineers by the sufficient allocation of budget.

The above examples are just a part of what has come to our notice in India. Yet, it gives no cause to blame the Indian Government for the ineffectiveness of realising fully effective results of its small-scale industry policy. We hope the Government will, in the near future, supply sufficient appropriation and excellent personnel to these organizations in order that the originally intended results may be accomplished. We are sure that the Indian Government is and will be intelligent and enthusiastic enough to attain this task.

(2) What attracted our attention in regard to India's small enterprise policy is that measures for protection and fostering of small-scale units are very, nay, too thoroughgoing. By "too thoroughgoing," we mean that the policy may lead to a tendency among small-scale industrialists to depend too much upon the Government. For instance, these excessive measures include over-subsidization of the creation or management of co-operative societies and marketing activities by the State Governments and N.S.I.C. We fully recognize the *raison d'etre* of the Government's help to the economically weak, but, at the same time, we fear that the small-scale units, spoiled by such subsidies, will come to depend increasingly on others without trying to stand on their own feet.

In other cases, it seemed to us that the Government is going in a direction opposite to its aim of nurturing private industries, because it intends somewhat to bear the responsibility for business management.

Taking such over positive measures are, for instance, the Ceramics Institute of West Bengal and Central Engineering Organization in Calcutta. Numerous small Government-invested companies in Orissa may, in a sense, come under this category. We realize the need for the Government to invest its funds or run enterprises in the early stage of their development. What is necessary is, however, that these enterprises are run and developed by the initiative and ingenuity of private industrialists themselves. The salient point in the small enterprise policy is not that the unit must be given some work or other at all times but that business is operated on the initiative and responsibility of the entrepreneur.

Needless to say, in citing the above examples, we had no intention whatever to denounce the present state of affairs in India. We hope you will not misunderstand our real intentions. It is simply because we are afraid that the Government's overconsiderate measures, if pushed ahead further, may cause small-scale industrialists only to rely on others and neglect to do things on their own initiative. They may blunt the "enterprising" that is essential for them.

It goes without saying that the basic contributing factor in the development of small enterprises in their operators' fervent "will to do business on their own responsibility." What should be done by the Government is to stay outside and help the entrepreneurs weather the difficulties confronting them and lead them in appropriate direction.

If the industrialists cease to make their efforts to stand on their own feet and turn to the Government for protection, not only the burden on the Government will become unbearably heavy, but also their independence in the real sense of the word will certainly be lost. They will then be a weak and nominal existence.

We do not think that this trend is now prevailing among India's small-scale units. We are rather under the impression that they burn with the "enterprise" in the ordinary sense of the word and full of the spirit of independence. But they are in a plight because chances or conditions for giving full play to such a volition are not fully ripe. Here the Government should come in to play its sole and important role. This may well be said the only and biggest duty of the Indian Government.

In this connection, we cannot forget some of the questions directed to us in the course of our meeting with the Indian small-scale industrialists. They are:

(a) Does the Japanese Government guarantee marketing of products of small-scale units in some cases?

(b) Why doesn't Japan give Indian small-scale units technical assistance in easier or cheaper ways?

We do not think that these questions represent the lack of the "do-it-ourselves spirit" on their part, and we rather believe they were asked just from carelessness or by way of business bargaining. But if there prevail conditions that prompt them to ask such questions, it deserves serious attention on our part.

In short, what we want to say here is that there exists now no such trend as may hamper the development of their initiative and enterprise but that it is their mentality that might nurture such a trend.

In our opinion, the excessive protection policy should be reoriented in the direction of "guidance and help" to give much room for them to display their self-sustaining spirit, as the foundation for the development of the small-scale industry is consolidated with the growth of the Indian national economy as a whole.

(3) Some of the protective measures for the small-scale industries provide for subsidies like price differential subsidies. For example, various loans are being made to co-operatives at far lower interest rather than those of city banks. Interest rates of N.S.I.C. loans for hire-purchase of machinery are also very low. We were told that the rent for Industrial Estate tenants is about one half of the average rent. We also learned that, in several States, power companies were given subsidies so as to prevent the kilowat-hour charge of electricity for small-scale industries from rising above certain levels. And, though the circumstances are somewhat different, direct state loans under the State Aid to Industries Act are lent out at low interest rates, next to those of the loans to co-operatives.

Although we are not unwilling to recognize the objective of these measures, it should be realized that prices including interest are the only target in marketing economy and the basis for production activity. Artificial reduction of the price will only result in the loss of the very objective in achieving business profitability. It will further cause the industrialists to run their enterprises in disregard of economy. And, if this measure is not applied to all the

small-scale industries in India but just favours a minority, it may give rise to considerable criticism from the viewpoint of equity. This is especially the case with the Industrial Estate.

A factual survey shows that the electricity charge for minor users, in some cases, runs up to two to three annas per kilowatt hour and even more than four annas. In other words, these rates are not very low as compared with the international level. Meanwhile, the city bank rate of 6 per cent per annum is not high in the light of the international level. It is rather low, almost equal to those of the United States and Britain. Nevertheless, an unreasonably low rate of 2·5 per cent is applied to co-operatives, and three per cent in case of long-term State loans.

Moreover, city banks scarcely make loans to small-scale enterprises, asserting that the credit guarantee system should be introduced.

Industrial estate is desired to expand several times as large as it is today out of consideration for industrial decentralization and developing of the local industry. About electricity, we heard the consumers complain about its shortage in many of the places we visited.

All this indicates that it is necessary to increase the supply rather than to reduce the prices. In a nutshell, more funds, more plant sites and more power are badly needed. It is suggested, therefore, that measures that are tantamount to subsidization for price reduction should be suspended and replaced gradually by steps to replenish resources.

Of course, none of us believe it is proper or possible to do away immediately with such measures, but we consider it possible that they will be abolished gradually in a certain space of time, in the course of which the small-scale industry will make up for the additional payments that may be caused and place their management on a new paying basis. For this, Government guidance is also necessary.

Only when this is done can the positive significance of the Government's industrial assistance policy be recognized and can the attitude of small-scale industrialists be placed on a sound basis.

4. In India, there seems to be an opinion that latent unemployed persons and the increasing working populations should be absorbed by developing the small-scale industries. This contention is not wrong in itself, but is, as it were, another side of the model of economic development. It must be noted, however, that, as shown in the economic history of various other countries, the development of small-scale enterprises can be achieved only when they are mechanized

and organized into the factory system. For this purpose, it will mean almost nothing, even if they are expanded "quantitatively" in their present status of manual trade. It can hardly be expected that the so-called "manufacture" system as such in such a manual stage will develop into an industry having a wide market and high productivity which can absorb much more labour force. Even in a country blessed with a broad domestic market like India, national economy cannot be developed without turning out cheap goods of uniform quality on mechanized equipment.

This does not mean, however, an immediate predominance of big factories by mass-produced goods. In India, the freight burden on industrialists operating in the vast inland areas is extremely heavy, and there are a diversity of demands stemming from racial, religious and provincial differences and those in manners and customs.

It is this decentralization and diversity of demands that necessitate the existence of the small-scale industries and promises its expansion

At present, various measures are in force to discourage further expansion of large enterprises and encourage the growth of small-scale units. For instance, these preferential measures, as far as we hear, benefit enterprises engaged in manufacture of bicycles, storage batteries, sewing machines, furniture, pencils, handicraft tools, sporting goods and footwear.

While fully appreciating the importance of this priority policy, we hope that development of small-scale units will be encouraged along the line of mechanization and modernization. It is self-contradictory to try to encourage progress in the manual industry in its present form. It is feared that such a policy will add to the consumers' burden—not only an increase in direct consumption outlays but also in the tax burden—thereby running counter to the course of industrial development.

Some oppose the mechanization of this manual industry on the ground that it will work to decrease the necessary working force and increase the number of the unemployed.

This argument holds true when the course of things be considered static and on the flat. But what has actually happened in other countries is not in such a simple process but in a along-range process that makes it possible, as in the following process, to maintain or increase employment:

Mechanization—cost reduction, price cut—increased demand—increased production—maintenance or increase of employment.

In a word, by making use of the cushion of price cut increased demand, Indian economy can be expanded to a large scale, and this should be the goal in every economic measure designed for development of national economy. Certainly, various conditions must be met for this process to be followed through. Some problems may be tackled in a long-range view, and the employment situation may temporarily deteriorate. Naturally, the Government should do everything possible to prevent an increase in the unemployed so that the modernization process may be realized with the least possible friction. One way to absorb those persons who temporarily lose their jobs despite such preventive measure is to send them to large industries and public works, such as power sources and expansion of transportation and irrigation facilities. All these large industries and public works are now under planning and need to be developed to a large-scale.

It must be fully realized that the policy of utilizing the manual industry for maintenance or increase of employment is an anachronistic policy contrary to the course of economic development.

When and in what form such a kind of industrial revolution will be carried out in India we cannot predict. Yet, it may safely be said that the surge of mechanization and modernization will sooner or later come to its shores. Perhaps, some may say that the revolution has already started since the first Five-Year Plan got under way.

Our impression is that this revolution is going on at a slow pitch and although with increasing speed, is not likely to make rapid headway for these reasons:

(a) It will be a considerable time before power resources as a technical basis for industrial modernization are developed sufficiently.

(b) Capital accumulation is yet far from enough, and there will be a limit to induction of foreign capital.

(c) Cultivation of the domestic markets will take a long time due to low agricultural productivity.

That is, it will be some time before the Indian manual industry is "washed away by the high tide" of industrial modernization and the Government can make use of this time-lag. It seems to us, therefore, that the industry can be modernized and reorganized systematically in the meantime. If such a modernization project is carried out systematically on a regional basis with the development of power

resources and accumulation of capital, there will be no alarming increase in unemployment, nor will there be much difficulty in marketing. It means that the manual industry will be able to tread the path toward modernization "quietly." The point is that the Government should steadily help the industry modernize itself steadily and coolly.

5. The definition of small-scale industry varies with countries according to the development stage of their small-scale industries and policies to be taken toward this category of industry. Our opinion is that the industry should not be defined theoretically, for it sometimes has political implications

In Japan, the definition has been revised twice after the War until the present one was adopted.

Today in India, there are three definitions of the small-scale industry. They are:

(a) Enterprise with power using less than 50 persons in a shift.

(b) Enterprise without power using less than 100 persons in a shift.

(c) Enterprise possessing fixed assets valued at less than 500 thousand rupees.

These definitions appear to be somewhat academic. However, we believe that these should be kept in being unless they contain serious deficiencies. It will not be too late to revise them properly when there arises a change in the economic situation or policy in the future.

One thing we should like to add is that it is rather difficult for small-scale industrialists with little knowledge of accounting to get a clear idea of how much worth their fixed assets are. And we wonder if these industrialists are not faced by knotty problems on which they need auditors, for example, the problem of separating assets for household and business uses, evaluation standard for business assets and depreciation of equipment according to their durability. This is why we said the Indian definitions are somewhat "academic".

At any rate, what should happen is that the industrialists should judge whether they fall under the category of the small-scale industry and act on the basis of the judgement thus made. This is a favourable side of the businessman spirit. And what makes it possible is democratic policy, we believe. We too consider it wise to adopt definitions that are easy for every one to understand.

CHAPTER II

INDUSTRIAL STATISTICS

I. Introduction

1. *Coverage of This Report*

Statistics that will provide essential information for development of manufacturing industry must cover a very wide range. They must deal not only with the value of production in the manufacturing industry but also with the export situation of their products, stock of raw materials to be used, or the technical personnel to be employed in the industry. Statistics on prices must also be collected.

Without complete statistics covering all these factors, it would be impossible to make full analysis of the manufacturing industry. However, since such statistics can hardly be obtained by a single survey, nor does it lie within the scope of industrial statistics in the generally accepted meaning, this report is to handle the so-called industrial statistics which describe activities directly connected with the manufacturing industry.

So this report will cover surveys limited to such factors as materials used in the manufacturing industry, products to be turned out, value to be added, and facilities employed in the manufacturing industry.

2. The task assigned to this delegation was to see how to prepare statistics on smaller enterprises.

However, statistics should not properly deal with smaller enterprises alone, but must be prepared as integral part of the statistics on all branches of industry including major enterprises.

In Japan, comparatively large scale statistics called "Fundamental Statistics of Medium and Smaller Enterprises" was compiled a few years ago. Although the name refers only to smaller industries, the statistics cover the whole manufacturing industry including major units, and was not confined only to medium and smaller scale industry.

By contrasting them against the major industries, the smaller industries can clearly be characterized. Analysis of smaller enterprises in relation to major industries can tell in what respect the former are behind the latter, and what measures are to be taken for the development of smaller enterprises. Such fundamental and overall surveys reveal the problems confronting smaller enterprises, and solution of such problems necessitates investigations on smaller

industries in particular. For this reason it is of imperative necessity that honest efforts be made to analyze smaller enterprises as a part of the whole industry.

It can be said that in India such fundamental statistics are insufficient at present. Therefore, this delegation has decided to take up the census of the whole industry as the problem awaiting immediate solution instead of statistics limited to smaller industries.

II. Present State of Statistics on Manufacturing Industry in India

Statistics concerning manufacturing industry in India up to 1959 can be classified into the following five categories:

Statistics on Big Scale Industries

1. The statistics on large scale industries are compiled under the Industrial Statistic Act, 1942, and the federal and state governments have relevant rules to execute the surveys.

This undertaking is carried out in each state under the supervision of Directorate of Industrial Statistics, and the statistics so obtained are regarded as the basic statistics of manufacturing industry. The statistics deal with factories, registered under the Factory Act, employing 20 or more workers with power. It covers only 29 out of 63 kinds of industries and excludes factories owned by the Government as well as those attached to training institutions.

It must be noted here that, as surveys on manufacturing industries will be conducted in future, in accordance with the provisions of the Collection of Statistic Act, 1953, which first came into effect in 1959, such surveys are likely to change in character to a large extent under this new system.

Although the nature of the new system is yet to be definitely formed the present draft reveals the following points:

(a) The new statistics will cover all kinds of industries.

(b) They will cover units employing 50 or more workers with power and those employing 100 or more workers with power and those employing 100 or more workers without power.

(c) Present statistics on the Establishment Base will be changed to that on the Processing Base.

(d) The present industrial classification system, dividing industries into 63 categories, will be replaced by the International Standard of Industrial Classification.

(e) Investigations will become more detailed, judging from the items which are said to be included in the forms now being drafted.

(f) Investigations, which have been handled by the statistic departments of the State Governments, will be conducted by the ISI (Indian Statistical Institute) under the direct supervision of the Federal Government. (Directorate of Industrial Statistics).

As the compilation of statistics under the new system are not yet ready to go into operation, the following coverage breakdown has been made from the old statistics. (Figures based on the 1955 issue) Figures in parentheses show those for 1953.

Number of factories registered		7,424 (6,857)
Number of factories from which returns were received		6,897
Coverage		93%
Total number of persons employed		1,783,702 (1,621,294)
Total value of production	Rs.	14,110,042,881
	,,	(11,227,989,761)
Total value added by manufacture	,,	4,194,538,581
	,,	(3,339,849,823)

Even under the new legislation, the number of factories to be investigated will not exceed 8,000, so the change of the scale of the statistics will not be so large.

2. As explained above, there has been undertaken no census such as covers all units registered under the Factory Act. Instead, a sample survey of manufacturing industries has been carried out annually since 1951, by the hand of the ISI. As the survey covers the whole of India with the only exception of Andaman and Nicobar Islands, it is not too much to say that the survey is performed on the all India base. The survey is apparently independent from the above mentioned census, but its Chief Director undertakes the whole responsibility for the survey and seems to be performing his duties in close liaison with the Director of the Industrial Statistics Institute.

The statistics compiled from this survey are held in confidence, but an outline of the survey may be given by the following information collected from the Ministry of Commerce and Industry. Samples used in the survey are selected from the factories registered under

the Factory Act, 1948 and the overall sampling fraction is all along about 1 in 19.

(Figures in 1953 results)		Percentages of deviation
Number of factories	29,632	
Number of samples . . .	3,378	
Total number of persons employed .	2,982,000	(3·20%)
Total value of production . .	20,845,100,000	(0·02%)
Value added	6,815,900,000	(0·02%)

The above figures include units covered by the census mentioned before.

On account of the different periods in which the aforementioned two surveys were conducted, it is impossible to compare the results as they are shown here. However, the coverage of the Census of Manufacturing Industries (CMI) 1953, within the whole units registered under the Factory Act, 1948 are about 23 percent in terms of the number of factories, 54 percent of the number of employees, 56 percent of the total output and 47 percent of added value.

Since the survey was originally aimed at obtaining statistics on national income and the percentage deviation is comparatively small, the statistics are considered sufficiently reliable on the whole India base. It is regrettable, however, that the figures cannot be analyzed in terms of individual states or industries. (The statistics can be used in reference to ten industries including cotton textiles, where one-fifth sampling was especially undertaken).

Survey of household enterprises

3. Household enterprise surveys are conducted as a part of the National Sample Survey.

At present there are two kinds of statistics, namely NSS No. 20 and No. 21.

NSS No. 20 deals with smaller units not registered under the Factory Act, whereas NSS No. 21 covers units with 50 or less employees with power and 100 or less workers without power. The following are the main figures in NSS No. 20 as it is more convenient for our comparative study.

Total number of households	70.850,000
Number of household engaged in small scale manufacture	9,886,000
Number of samples households	10·680
Number of working persons	12,642,000
Total output (average per month)	603,788,000 Rs.
Value added (,,)	220,339,000 Rs.
Total output per household per month	61·07 Rs.
Value added per household per month	22·29 Rs.

As this survey covering the six-month period between October 1953 and March 1954 includes side-business such as farming, seasonal deviation should be taken into account in calculating annual showings. Thus twelve-fold of a month's figure does not represent the exact mark for a year. However, with no other data indicating similar statistics, annual showings may only be acquired by multiplying by twelve monthly figures.

According to the calculation, annual total output amounts to some 7,000 million Rs. and added value 2,500 million Rs. Here again the statistics cannot be broken down by industries or by states. Out of the total national output, which is estimated at around 27,000 million Rs. by putting together the three kinds of statistics, 11,000 million Rs. are covered by the census, 9,000 million Rs. by the SSMI and 7,000 million by the NSS. It must be noted here that the census covers no more than 40 percent of the whole industrial output and that therefore an industry-wise or state-wise breakdown cannot be obtained from these statistics, except the census.

All the statistics dealt with in this report, which are not intended to be released to the public, have been made available for our study by the special courtesy of the Ministry of Commerce and Industry.

4. In accordance with the Industries (Development and Regulation) Act, 1956, the Ministry of Commerce and Industry enforces registration of 38 specific kinds of industries, both existing and newly established. The Ministry also appears to be collecting non-legislative statistical reports from such factories once for each quarter of a year through the machinery of each state.

The classification of industries into 38 groups (62 sub-divisions) does not correspond to the 63 types of industries as previously stated, so that the exact comparison cannot readily be made, although major industries seem to have been mostly included. It was observed that some states were not completely cooperative toward the project of the federal government, while others were still studying the

matter. As the officials responsible for the surveys have not explained us clearly the scheme of the survey nor the materials provided, we could not understand it well.

5. The availability for overall statistics remains at a level as stated in the preceding sections, so that it would not be difficult to imagine that sufficient statistics are not available as the effective data for industrial administration by the Government. To cope with the insufficiency in industrial statistics, various industry-wise or state-wise surveys are being conducted, besides the above-mentioned census, by the Economic Branch of Development Organization for Small Scale Industries as well as by each state government.

The researches conducted by the former include not only ordinary statistical investigations but also various marketing surveys, analysis of the effects of governmental aids to smaller enterprises, etc. Their researches are therefore highly evaluated, but, nevertheless, they are still regarded as insufficient because they do not cover the whole field of industries nor are they in many cases carried out periodically.

On the other hand, researches and analysis which the state government conduct either as a part of census or as an independent programme, are useful but too much restricted to each region in order to be viewed as the nation-wide data.

To sum up, the current status of the industrial statistics in India is that the statistics are being prepared almost satisfactorily as far as large-scale industries are concerned, whereas those of smaller enterprises, especially of household enterprises, are not well provided. In order to fill up the deficiency in the Statistics of household enterprises, there are some subordinate surveys which are by no means adequate data for the nation-wide analysis of Indian industry.

III. Criticism on Statistics of Manufacturing Industry in India

1. The statistics are excellent in terms of theory and technique but somewhat indulge too much in theoretical treatments.

The development of mathematics, especially of statistology in India, is highly appreciated in Japan as well as in the rest of the world. But when applying the science to practise in conducting industrial census, the Indians seem to be too particular about points of theory even in minor portions of processing. What is needed in India at present would be, I think, statistics with precise data concerning not only large units but also small scale units which may give a more concrete understanding of the whole picture. Such

nation-wide overall statistics would naturally be desired by the administrative authorities.

In my opinion, the development of theory on sampling survey in India has been so remarkable that the merits of such survey are over-emphasized, and the method is being employed even in the sectors where survey can be conducted very easily of every unit, thus making it difficult to collect full data.

The same is the case with the selection of items to be investigated. Since the statistics are constructed on a strictly theoretical basis, it is observed that very few units can be found applicable for the survey and that there would not be many enumerators who are able to understand the whole story.

2. Liaison between government departments concerned with statistics is not well organized, and they are showing a somewhat marked tendency toward sectionalism.

What strikes me as strange is that the liaison is not well maintained between government departments. The tendency towards sectionalism they come to develop is common to all government offices of the world, as government offices are apt to lack sufficient liaison between them with the expansion and complication of modern bureaucratic machinery. In the particular case of industrial statistics, the fact that the Indian census authority has been handicapped may perhaps be due also to the geographical condition that the Directorate of Industrial Statistics is located in Calcutta.

It is still hard for foreign observers to understand, under all these circumstances, why the Directorate is more likely to segregate itself from the Ministry of Commerce and Industry, and confines himself to the statistic on larger scale one when there is an eager demand for statistics on smaller scale industries, and moreover there are many portional statistics on them. Also there is no room for questioning the necessity condition that the Directorate and the State should go in closer operation if it is intended to take the course of large-scale census in future, but in actual fact it is apt to deviate from them. This impresses me as slightly anachronistic.

A similar thing may be said in regard to the classification of industries. In short, this is because excessive emphasis is placed on planning, such as "Five Year Plan," while little attention is being paid to more practical and more serious uses of the statistics on the daily administrative purposes.

Coverage of the Census is too Small

3. It is true that a considerably large portion of factories registered under the Factory Act are covered by the National Sample Survey, but industry-wise or states-wise data are fully available for their administration only on 50 percent of the whole national industry in terms of total output.

It is regrettable that with such an advanced theoretical background, India has such insufficient statistics concerning her industry.

4. The schedules cover questionnaries difficult of actual enumeration. The scheduled forms of census of manufacturing industry mostly consist of several sheets of paper on which plenty of questionnaries are printed. The voluminous forms are used not only for large scale industries but also for small or household industry.

Some of the questions seems very difficult to be filled in by the reporters. For instance, one of the items in a survey on value of capital investment, was stated as "value at the beginning of the year." It has been controversial issue in the years past in Japan whether or not to include this item in the census form, as it is difficult to figure out the value of investment. Therefore, the item is not included at present. In Japan, the influential argument against the adoption of this item is founded on the basis that the book value, that is, the value recognized by the tax office may possible lead to false evaluation. In other words, in case the schedule form is detailed, the collected data will naturally be abundant, but at the same time they are more likely to mislead their users against the original intention of the planners, and, in spite of the strenuous efforts made at the time of survey, may prove fruitless, and, moreover, bear bad fruit.

5. Insufficient care is taken in keeping the data of census in confidence.

In a certain state, our delegation observed that, when schedule forms collected from enumerators were brought to the state government office, the portion of each form on which names of factories were indicated was detached from the form and thus all forms were treated only in reference to identification numbers. This is a good example of keeping the matter in strict confidence.

Inefficiency of Officials Engaged in the Census

6. It was observed that the number of officials engaged in census, namely enumerators and investigators, is inefficient.

For instance, we heard that an average state enumerator can handle only 1·5 or 2 cases of initial or followup interviews per day,

and an investigator can treat only four cases per day. The figure is too small even if it is taken into account that in India self-filling is not done by reporters themselves as they are done in Japan.

The main reason for this poor operation may lie in the complicated schedule form, and the difficult method of processing.

In order to organize combined extensive censuses in future, it is of imperative necessity to improve the efficiency of enumerators and investigators.

IV. Suggestions for Future Census

1. As stated before, this report is aimed at giving suggestions for making systematic census, covering not only smaller scale but also large scale industries. It would not be necessary to reiterate here the reason for including large scale industries in the systematic census. Of course, I am not denying the necessity to make many partial researches, such as those specialized in an industry or a state.

My suggestion is that these partial researches should be designed as though they are the necessary enlargement of a part of the Census. After a complete Census, these partial surveys can find their proper position in the Census, and their meaning can be made more clear.

Above all, it would be advisable to embark on an industrial census on a large scale at the earliest opportunity, although it would of course be impossible to do so in a short time because of technical reasons.

As the census tends to lack concreteness when it is conducted on a large scale, it is deemed proper to maintain various kinds of researches, such as are currently executed, so as to cover the inconcreteness of the census. These two kinds of surveys should necessarily be conducted by a single office, and it is unwise to have the survey on larger scale industries conducted by the Directorate of Industrial Statistics and on smaller one by the Ministry of Commerce and Industry.

2. *Coverage and Frequency of Census*

In order to conduct accurate census, it is essential to obtain a complete list of factories.

In the United States, almost all manufacturers are listed up by the Bureau of Old Age and Survivor Insurance System. By using this up-to-date directory of factories census can be done through

mail-system, and in one case of this type of census the expenses incurred were no more than two-thirds of those in the case of field canvassing.

In Japan as well, a directory of manufacturing, commercial and service establishments compiled through "The Enterprises Census" is available for the same purpose

In India, too, there is a complete list, compiled under the Factory Act, of factories covering units employing more than ten with power and those employing more than twenty without power. It should, therefore, be made available to facilitate industrial census. Efforts must be made to obtain complete lists of units by checking up the aforementioned directory under the Factory Act with the list which can be prepared through the registration filed with the Ministry of Commerec and Industry under the Industries (Development and Regulation) Act. Thus the units covered by the Factory Act will become accessible.

Regarding this sector, the survey is, or is going to be, conducted only on a census base covering units with employees from 50 with power and 100 without power.

The other units governed by the Factory Act are covered only by the N.S.S. on the all-India basis, as stated before.

Judging from the materials collected upto now, the total value of products of the units covered by the census accounts for only fifty percent of the total national industrial production. The coverage of around fifty percent may be natural when the survey is conducted monthly or quarterly, but when it is conducted once a year the coverage should become greater.

By means of a well compiled directory, the survey can easily be made more extensive.

The units as objects of survey number only 30,000, representing only three percent of all factories including household enterprises. And the units comprising this three percent, if added to the units to be covered by the census, will expand the census coverage upto 80 percent in terms of total production. It will serve vastly to improve the accuracy of the statistics.

Some may say that the 30,000 units may well be covered by sample survey instead of census. Whether a part of the units should be covered by census or by sample survey depends on how detailed the investigation is required to be.

A census is not always appropriate, but in India it would be the minimum requirement to provide dependable statistics in terms of states and of types of industries for the administrative use.

The number of sectors in the case of 14 states and 100 types of industries can be obtained by the following formula:

$$14 \times 100 = 1400$$

The average number of units in one sector can be estimated as below:

$$30{,}000 \div 1400 \div 20$$

Of course the distribution of units in each sector is not altogether even, as no data are available to show the present situation of distribution, I cannot make up the concrete sample design on the matter. Such being the case, it may be still useful to conduct a census annually.

Handling of units smaller than those mentioned above which are covered by the Factory Act, is by far the more difficult as no directory of factories in the category is available. To take for an example the case of the survey conducted in the district of Burduan in West Bengal, all of eleven urban districts and ten percent of the total number of the villages (*i.e.* 241 rural districts) were covered by the preliminary survey.

Of the 11 urban and 241 rural districts, small scale industrial establishments were classified into 100 groups according to principal products. In doing all this work of listing and classifying these units, it took as long as two years and this was partly due to the fact that no temporary enumerators were employed. Therefore, it can easily be imagined that if a complete directory of factories is to be prepared for the sake of an industrial census, the expense will amount to more than several scores of times as much as that spent on previous censuses, and it will take a considerably long time. Or it may not be completed for lack of enumerators.

Fortunately, in India, a population census is going to be held in 1961. In the draft of the form to be used in this census, a survey is said to be added as to whether households are engaged in manufacturing enterprises. The form is also expected to have a questionnaire on the number of employees engaged in household manufacturing.

It is desirable to include in the population census form such particulars as classification of household manufacturing industry under several categories. It will surely contribute to future censuses and

efforts should be made to insert such items in the form, even though there may be considerable difficulties in making such survey along with the population census.

The next question is how the sampling should be made out of the frame prepared as above. In any case, census is not necessary nor will be possible.

Incidentally, it was suggested by the United Nations that industrial census on a worldwide scale should be conducted in 1963 and India may have been invited to participate in the programme. There would be some difficulty in conducting industrial census in 1963 according to the frame prepared by the population census expected in 1961, but it would not be impossible.

For conducting the census, it is advisable that each state should prepare a list of units for sampling to be made under the instruction of the central authority and, if possible, enforce detailed surveys in order to obtain district-wise and industry-wise statistics. Since a relatively complete census can be expected only every ten years, that is, after the population census, the authorities concerned should concentrate budget and labour on the project.

At present, the definite number of samples cannot be given without knowing the result of the population census, and roughly speaking, hundreds of thousands of samples will be needed to obtain statistics by states and by types of industries. This will naturally require employment of temporary enumerators.

Besides, annual sampling surveys should be made by a smaller number of samples regarding the sector which has not been fully covered before. This kind of survey may be conducted to an extent that figures by states and by types of industries can be acquired.

Fluctuation of frame should, of course, be taken into consideration, since the overall census is made at a considerably long interval of ten years. But the possible effect of fluctuation on the results of the survey may be reduced to a minimum if the survey is conducted on an area-sampling basis.

The survey of units under the Factory Act as well as that of the units should be operated as integral parts of a single project.

As regards monthly or quarterly surveys, they may well be operated on a nation-wide scale by a broad classification of industrial types, as their main object is to get immediate information on the industrial trend of the specific period. The current sample survey of manufacturing industry will be found suitable for these surveys, if it is somewhat simplified. As the immediate release of data collected through such surveys is naturally quite essential, it

should not be anything like the present way of releasing in which statistics of several years ago are released as confidential.

For preliminary information on the 1963 World Industrial Census, reference is requested to be made to the "Outline Schedule for an Industrial Survey Related to 1963" found in E/CN, 3/L 49/ Add 1 issued by the United Nations. Naturally, this schedule should be subject to considerable modifications if it is to be adapted to countries.

Before 1963, efforts should be made to conduct as soon as possible surveys immediately required in the present situation of India on the basis of the 1951 Population Census. They may be as simple as the 1954 National Sample Survey on household enterprises. Such preliminary surveys will contribute to the training of the officials to be engaged in the future census.

3. *Adjustment of Function between Federal and State Governments and Budget Allocation*

As the Constitution of India stipulates, the authority to conduct industrial statistics is shared between the federal and the state governments. Although it would be necessary for each state to get fully prepared for directing surveys within its power, yet so far as industrial census is concerned, it should be conducted by order of the central government systematically and uniformly.

Of course the state government may be authorised to make any kind of related investigations so long as they are entirely compatible with the purpose of the principal survey. The same government may also be allowed to amplify the number of samples in order to obtain more detailed data.

For the strict enforcement of standardized surveys, existing rules, as far as I know, are quite competent, but if not, the federal government should establish proper regulations. The government should also allocate the budget to each state as specialized operational funds for the surveys. Maintenance of sufficient budget and specification of them are considered essential for compilation of legislated industrial statistics, although this may involve various difficulties on the part of the financing authorities.

4. *Organizations for Investigation*

The following are the main central government offices which are currently engaged in the preparation of statistics on manufacturing industry in India:

(a) Directorate of Industrial Statistics;

(b) Indian Statistical Institution (or Directorate of National Sample Survey);

(c) Competent bureaus and sections of the Ministry of Commerce and Industry.

The main local agencies concerned are the statistics bureau of each state and the regional office of the Indian Statistical Institution. The State Bank of India and some other institutions are also engaged in investigations on various industries as a part of their business, but their are not considered to be principal roles from the viewpoint of industrial statistics.

Among the aforementioned offices, the DIS, whose sole object lies in compiling industrial statistics, is regarded as the most important. It is a matter for deep regret, however, that the organization appears to be lacking in positiveness and zeal with which to enlarge the census and to meet various administrative requests. This may be attributed to the shortage of budget, in spite of ceaseless efforts on the part of the personnel concerned, as Prof. Ghosh explains. Under these circumstances, various *ad hoc* or partial surveys were conducted by the ardent desire of users of the statistics, such as Ministry of Commerce and Industry. And in some sense this, in turn, constituted a cause for hindering the concentration of budget on a unified census in a more systematic way.

What seems strange to me is the fact that since 1959 industrial statistics have been made to cover the units employing 50 or more workers with power as well as those employing 100 or more without power. While the number of types of industries to be covered was expanded, it resulted in the decrease of coverage in certain kinds of industries. The reason for the may be ascribed to the insufficient funds and personnel.

In the meantime, the Ministry of Commerce and Industry has registered the nation's leading enterprises under the provisions of the Industries (Development and Regulation) Act (1956), and, furthermore, they have conducted some surveys. This is apparently overlapping, in substantial portions, the industrial statistics. Here arises a doubt as to whether there is any special reason why the government has repeated such surveys, while it is complaining of shortage of funds and personnel even if there is a little difference between the subjects of two surveys. It is also doubted why the government does not try to adjust these two surveys.

Generally speaking, statistic agencies are very delicately related with administrative agencies of the government. In many instances, administrative offices are capable of preparing statistics at extremely

small expenses and also collecting various kinds of necessary data without much difficulty. However, their statistics are apt to lead to a biased view, which is one of the vital defects in their enumerative work. Such a defect is unavoidable, especially in India, where governmental control is predominant.

In order to cope with this situation, it is hoped, the business of statistics will be attended to exclusively by offices specialized in statistical survey. It must be noted here that survey sections of the government must be operated in close contact with administrative sections; otherwise survey is apt to be made for survey's sake.

When the above is applied to the present situation in India, it follows that industrial statistics should be compiled upon the responsibility of the Directorate of Industrial Statistics, which is required to strengthen close liaison with the Ministry of Commerce and Industry.

It is desired, first of all, that the D.I.S. make active effort to meet the administrative demand of the Ministry. If the current administrative structure is responsible for the unfavourable relations now existing between the two agencies, it would be wise to put the DIS under the supervision of the Ministry of the Commerce and Industry. Another way of improving the disagreeable situation would be to transfer the DIS office from Calcutta to New Delhi as soon as possible.

As regards the relations between the ISI (DNSS) and the DIS, the two organizations appeared to be working together on comparatively good terms. I admit that the ISI has been properly assigned the recent survey on manufacturing industry whose main purpose is to collect basic data for national income statistics, rather than to prepare a part of industrial statistics. However, it is hoped that all industrial statistics will be handled in future by the DIS with the assistance of the ISI so as to establish complete statistics.

As for local organizations, statistics offices of the state government are in charge of industrial statistics, while regional offices of the ISI carry out the National Sample Survey. According to Prof. Ghosh all industrial statistics have been compiled since the beginning of 1959, not through local governmental organs, but through the ISI's regional institutions. This is because, as Prof. Ghosh, explains, the ISI has numbers of experienced enumerators specially trained in the filling work which requires advanced knowledge and experience concerning statistics.

At present the ISI despatches more than 500 enumerators throughout the country to collect the necessary data for the National Sample Survey of industry as well as of other fields. When objects of investigation are expanded from the present 10,000 to several tens of thousands or more, the ISI will have to increase the number of the personnel to be stationed at its regional offices. However, it is doubted how the ISI can collect numbers of additional enumerators in a short time. It is also doubtful whether such a huge number of objects will be completely covered by enumerators without the aid of temporary enumerators. These two questions must be solved before everything else. Information on the total number of the enumerators who are now stationed at statistics offices of the state governments for the industrial statisitics purpose is not clear. But the average number of them in each state may be roughly estimated at about 250 in a large state. It may be admitted that I.S.I.'s enumerators are better trained as compared with states' enumerators. However, it seems to me easier to utilize the latter when we think of the difficulty of increasing rapidly the number of the former.

Moreover, in order to make the most efficient use of investigators currently engaged in such surveys as crop or vital surveys other than those on industrial matters, efforts are to be made on the part of the state government to adjust the time of surveys. In this connection, I should suggest that state governments should establish combined statistical bureaus engaged in enumeration rather than planning of statistics. Such establishments should not be attached to several administrative departments of the state government. For, in local districts, how to prepare statistics is more important than what statistics to be prepared. Then, experienced officials of the ISI will take the leadership of local enumerators employed in each state.

In anticipation of the growing demand for the survey of this kind, local statistics organizations will have to be prepared for future expansion, and it would be a short-sighted idea to transfer all affairs concerning local industrial statistics to the ISI which has but few local agencies.

Besides, the aforementioned industrial surveys conducted at a short interval, India should have a large-scale industrial census every ten years.

I am not fully entitled to suggest the establishment of such offices as Registrar General as a central body and its local offices in every district which played a big role especially in the past population

census. However, I believe that this large-scale project will surely require a considerable number of investigators to work in local agencies which will greatly outnumber those employed for annual industrial surveys.

Following the experience of Japan which in the 1931 recession directed the betterment of many statistics by employing a great number of jobless office workers, the Indian government should accomplish the double purpose of unemployment relief work and a great census which is regarded as the nation's pride for its perfectness in theory as well as in processing.

5. *Classification of Industry*

According to the India's industrial census, all manufacturing industries are classified into 63 different groups, but this classification system is not enforced in any surveys other than the industrial census carried out on a large scale. As a matter of fact, other systems entirely different from the above-mentioned one have been adopted in surveys for smaller industries. In several states, the 63 categories under these systems have been used in sub-divided forms to cope with the situation.

Besides the classification of manufacturing industry, which still leaves something to be desired, there are no regulations governing classification of all industries involving other industries, such as agriculture, forestry, fishery, mining, construction, commerce, insurance, transportation and communication and services. It strikes me as strange that the above classification system has not developed in India which is noted for her advanced statistical theory.

Future surveys are reported to be carried out under the International Standard of Industrial Classification. It would bring about much better results than those with the conventional method, but it is doubtful whether the ISIC alone is able to compile statistics adapted for the administrative needs of the Indian government. Although we appreciate the merits brought out by the ISIC, some other form of classifications would be still needed to make up for what is lacking in the ISIC. Evidently, many points in the ISIC are not found in conformity with the classification used in Industries (Development of Regulation) Act. More particularly, statistics on smaller and household enterprises will become nothing but a collection of numerals if prepared under the ISIC.

In this connection, I am not suggesting that you should deviate from the ISIC. My point is that the government should do its best to study the ISIC fully to see what should be done, in order to

draft its own classification system by combining the local administrative needs with those for international comparison. Without such a classification, it would be impossible to carry out the census covering all manufacturing industries. And, if possible, the result of the census will be nonsensical in its use.

In building up the new system, special regard will have to be paid to the following facts:

The new system should be applicable to all statistical surveys irrespective of whether the manufacturing industries are of large, medium or small size. The classification must be made out not only for manufacturing industry but also for others, such as agriculture, fishery, as indicated before. According to the ISIC, all units should be classified by its major industry. But in India, special consideration must be given to the classification of units where a lot of manufacturing and farming industries are combined. By the internationally accepted principles, such units should be classified in agriculture if the major industry of the units is agriculture. So, industrial surveys cannot cover the pretty large amount of industrial production by the units classified under agriculture.

With only a few established statistic systems on industries other than manufacturing, this combined industry cannot be handled as a portion of objects under agricultural survey like other nations do. As such kind of industry can be included in the universe, I should suggest that for the time being, "farmers engaged in household manufacturing as subsidiary job" should be regarded as units for industrial census.

With regard to making classification tables on manufacturing industry, it is advised to stop using the conventional method, *i.e.* listing 63 industries in a row, but by adopting the decimal system of classification, such industries should be divided into larger categories, each of which is to be classified into further smaller groups so that the table itself may be shaped like a pyramid after repeated classifying operations.

The new industrial classification should be built up on the establishment base instead of on the processing base. The processing base being currently taken up in India has been found effective in using statistics, although it entails various difficulties in the course of preparation of statistics. As such technique is possible in the case of a smaller-scale survey, but if applied to surveys on a large scale, it will only complicate the problem under survey by the elaborate handling of the questionnaire posed in forms on the basis of processing method. In view of the present trend for overall census, it will be wise to adopt the establishment base.

6. *Items for investigation*

No conclusion has so far been derived as to whether the questionnaire should be simplified or not, in spite of repeated discussions in terms of statistic technology.

Those who are in favour of simplification hold that :

(a) the more complicated the questionnaire is, the less accurate the entries become

(b) the detailed questionnaire will be hard to be defined;

(c) the questionnaire will impose too heavy a charge on enumerators and reporters.

Those supporting the detailed questionnaire are insisting that :

(a) accuracy of data may be increased because enumerators frequently contact reporters;

(b) tne reporter will not find difficulty in filling the questionnaire that concerns his own enterprise;

(c) the more questions there are, the more often the entries can be mutually checked and easily processed; and

(d) it would be better to have even inaccurate answers than nothing.

All of them sound quite reasonable. In any case, it is necessary to study the proposed questionnaire closely item by item before deciding on the alternative method, by taking into collective consideration the administrative objectives to be attained by the questionnaire, ability of reporters for filling answers, surveying capability of enumerators as well as investigators.

As I cannot realize the full circumstances of the above-memtioned matter, I cannot make a full suggestion how the questionnaire should be.

But I should like to give my impressions on the questionnaire currently adopted in India.

As regards those in the census, I should like to comment on the following questionnaire. Aforementioned points in another chapter will be omitted here.

(1) "Average number of persons employed per.day"

The statistics for the above should be prepared on the basis of the average number of employees reported at the end of each quarter.

(2) "Money value of any privileges, benefits, etc."

It is quite doubtful whether it is possible to conduct surveys with this question, because there is much controversy on how wide the question is intended to cover and how properly "money value" is known. Such statistics are properly obtained not by means of census but by special sampling survey.

(3) "Materials, fuels and lubricants"

This questionnaire seems to be a classification into too small categories. It is doubtful whether such excessively detailed classification is of any help toward accurate surveys. I think it will be nothing but a source of complication.

The problem of a too detailed questionnaire also creates discussion in N.S.S. on smaller enterprises. There seems to be no valid reason for using complicated survey forms, especially in the case of those concerning household industries. In this case, well versed enumerators take care of the work of filling forms and reporters have nothing to complain of about the complicated survey forms. However, it is feared that enumerators may possibly fill all questionnaires with fictitious entries plausibly arranged by their own hands.

The competent authorities are requested to proceed speedily with drafting simpler survey form in time for large scale surveys to be expected in future.

7. Immediate Release of Statistics and Maintenance of their Secrecy

Needless to say, it is most desirable that the results of surveys be released immediately.

As far as census is concerned, they may be allowed to spend so long a time for tabulating and computing. But there may be some room for hastening them, when we think that the number of units is not so large. I think the release of the results will be accelerated by adopting the quickest computing method made possible by the electronic computer "Ural" installed at the ISI office in Calcutta. The conventional computing machines might be quickly replaced by machines of the latest type recently presented by the Soviet Government.

Regarding National Sample Survey conducted by the ISI, it is to be wondered at why the results are being released so belatedly to the public. To take the example of the 1953 Report on Sample Survey of Manufacturing Industries which was personally furnished to the writer by the Ministry of Commerce and Industry, the report was not

found ready for release to the public even six years after the survey was carried out. The drafting of the annual surveys conducted since 1954 has not yet been completed for release. It is incomprehensible why the competent authorities take so much time in dealing with a small number of samples.

The slipshod procedure being followed in India, I should say, may be attributed to red tapism. By all means, much delay in releasing the results of the survey must be avoided, as such results should properly be made available for use of the general public, if they are not the top secret of the state.

The report should also cover the survey of government-sponsored enterprises and of those operated by cooperative bodies, etc. Unless figures are included, it may lead to much misundertanding when comparison is made on an international basis. About the maintenance of secrecy in individual survey forms, I have already mentioned in the proceeding chapter, "Criticism on the statistics in India." And the same is stipulated in Article 7 of the Collection of Statistics Act, 1953. The authorities concerned should observe the regulations strictly. They are also recommended to take up the method of tabulating the statistics by states and by industries.

When one or two factories in a state or an industry in question are covered by such tabulation, the tabulated statistics may easily lead one to make a pretty fair guess as to the actual individual enterprises they represent. In such a case, the numbers of units should be represented as "X", as is commonly done in any modern statistics of the world.

8. *Public relations on statistics and education programme for enumerators*

In the case of a large-scale survey covering even the smallest units employing less than 10 or at most 20 workers, public relations programme has not necessarily much importance to reporters because the surveys have to be carried out by the system under which enumerators fill survey forms. Accordingly, the training programme for enumerators is much more necessary than when the surveys are conducted through the self-filling system.

There will not be very much difficulty in training full-time enumerators, who are well aware of their own duty, and who are constantly under proper guidance. In the case of part-time workers, it is necessary to arrange special courses in the method of interviewing reporters. Best instructors may be selected from among enumerators stationed at the ISI's local office.

It will not be very difficult that these part-timers, who should preferably be selected from among school teachers, are given in irreducible minimum of essential instruction and training during a comparatively short period, if instructors and the training and method are proper.

9. Post-enumeration Survey

However precisely surveys may be conducted, a post-enumeration survey should be made in order to enumerate the deviation which is always involved in any surveys.

The following is an outline of a post-enumeration survey.

(a) Special enumerators assigned for this purpose (the ISI's regional officials would be most suitable) are despatched to a certain sample region picked out at random from among all survey sectors. They make re-investigation to find out any omission of units in the sector.

(b) A deviation involved in the survey can be enumerated through strict research on the same sample units which are used in (a). The forms to be used here should be different from those used in the original survey. The research puts stress on principal items of the questionnaire in the original survey forms, such as production and labour. It examines how these items were filled. The ratio of deviation of the figures filled in the original survey forms is to be accurately enumerated.

(c) Subsequent investigation should be conducted immediately after the survey.

(d) Enumerators for the investigation should be different, if possible, from those engaged in the original survey.

In view of the current situation in India, it would be advisable to assign enumerators on the ISI that task.

V. Conclusion

During my brief travel in India, I was quite often impressed by its high standard of statistic technology as well as of enumerators, though not in a good number.

These national assets and intelligence will surely enable India to compile a fully-covered survey, worthy of the name of "census." The only fact standing in the way of this goal is, to put it strongly, that the Indian people are lacking in sufficient interest in compiling perfect industrial census. Thus, the government has found it hard

to establish an organization or to secure sufficient amount of budget, for preparing statistics. At present, however, government officials, who seem to have realized the true significance of industrial census, now are stressing vigorously the need thereof. And there is no reason why they cannot make up a complete industrial census.

According to the data which have been available to me, the federal government allotted Rs. 17 million in 1957 as funds for statistics, in addition to state governments' Rs. 9 million. As Mr. Prasad of the Central Statistics Office told me, the sums to be allocated in 1957 by the federal and state governments are about Rs. 20 million for each. So, roughly speaking, in these two years' time, the total sum has doubled.

It is a matter for regret, however, that the funds have not always been used effectively for the surveys systematically arranged in the long-range programme, but they have sometimes been spent for temporary surveys. Now the government should formulate a systematic programme for statistics and promote cooperative relations between specialized organisations on statistics and competent administrative agencies of the government.

This report, based as it is on my impressions during only a month's stay in India, might be, I fear, superficial and irrelevant in many points, but I hope it will serve in some way or other to prepare the ground for preparation of industrial statistics in India on a well-organized basis.

CHAPTER III

ORGANISATION

I. Impressions of Industrial Cooperative Societies and Some Comments Thereon

1. *Organization of Industrial Cooperative Societies*

Data available to us on the industrial cooperative societies in India have been extremely limited. During our tour we visited ten-odd industrial cooperative societies in different parts of the country, but this number represents merely a fraction of ten-odd thousands of such societies scattered over the vast stretch of land. Since it is considered a very hazarduous attempt to make an assessment of the general condition of the Indian industrial cooperative societies from the scant data and draw some conclusion therefrom, we shall simply state the impressions we gained from the societies and make some comments on them.

Judging from all information available, the most advanced form of cooperative system may be that of the handloom weavers' societies. Statistics as of June 30, 1956 show that they account for about half of the total number of industrial cooperative societies and their number is roughly two-third of the total membership of industrial cooperative societies. As of December 31, 1957, 1,170,000 of 2,880,000 handlooms in India have been organized into cooperative societies. The handloom weavers' societies, with apex societies in each state, seem to be engaging briskly in business.

Cooperative system is seen also in a fairly large number of palm *gur* societies and tanners' and leather workers' societies, both of which, however, are concentrated in certain states. Other trades appear to be relatively slow in forming themselves into cooperative societies.

2. *Capital and Finance*

Our first impression of the industrial cooperative societies is that they are structurally feeble and are in financial difficulty. One of the reasons for their structural weakness is shortage of capital. According to our estimation based on Appendix G of the Report of the Working Group on Industrial Cooperatives, the average paid-up share capital per society is 3,400 rupees for handloom weavers' societies, 350 rupees for palm *gur* societies and 3,300 rupees for other societies. Then, the share for each society member would be as low as 30 rupees for handloom weavers, 5 rupees for palm *gur* makers

and 40 rupees for other society members. Moreover, of this share capital, the amount loaned by the Government accounts for 87.5 per cent in the case of handloom weavers' societies and 75 per cent in the case of others.

Under the Indian law the amount of working capital is limited to eight to ten times the sum of the share capital and the reserve fund, but our estimation from the above-mentioned data has revealed that actually the working capital amounts at most to only twice or four times.

For raising their working capital the cooperative societies largely depend on the Government funds, because the cooperative banks, as well as commercial banks, extend little loans to them. The only exception is the case of handloom weavers' societies, which seem to get some loan from the cooperative banks. The cooperative banks' chief interest is more in agricultural cooperatives than in industrial cooperatives.

Thus, the working capital of industrial cooperative socities is furnished by long-term Government loans at the concessional interest rate of 2.5 per cent, but not in sufficient amounts to meet the societies' demands because of lack of security. There is a limit to the Government's financial resources and the Government's direct financing is also undesirable from the viewpoint of efficiency. As suggested in Chapter IV of this report, it is considered most appropriate that this form of financing be undertaken by the industrial cooperative bank, with the Government providing the necessary funds or under-writing debentures. The issue of debentures—to be underwritten by the Government whenever occasion calls—would enable capital to be raised from the money market and therefore should highly enrich the source of capital supply. In offering loans, the bank should place emphasis on personal surety instead of on security. Arrangements should be made so that guarantee will be obtained from the guarantee fund as proposed in Chapter IV of the present report.

3. *Marketing*

The average annual sales of industrial cooperative societies, as estimated from the Appendix of the Report of the Working Group quoted above, are 29,000 rupees in the case of handloom weavers' societies, 2,600 rupees in the case of palm gur societies and 5,800 rupees in the case of others. Divided equally among members of societies, the per capita sales come out only 250 rupees for the handloom weaver, 35 rupees for the palm gur maker and 150 rupees for the member each of other societies. Since these figures include those for service societies, they cannot be considered to indicate the incomes of members. Nevertheless, when we take into account the

fact that production societies account for the majority of the societies, it must be admitted that the sales are very small.

Like all other cooperative societies, those which we visited were baffled most by the problem of marketing. Because of poor sales, they cannot assign full work to their members. Consequently, the wages received by members seem to be considerably low as compared with the general wage level.

Most successful in marketing operation are probably the handloom weavers' societies, whose apex societies have emporia and sales depots not only in their own states but in other states as well. They are organized into the All India Handloom Fabrics Cooperative Marketing Society, which has opened depots abroad and are making a fair showing.

Other industrial cooperative societies appear to be doing their own marketing, having few apex societies to conduct that business for them. Undertaken by the primary societies themselves, with limited funds, marketing is conducted on a small scale and the result is that the sales of products are poor. It would be difficult for these societies to set up marketing activities without organizing apex societies. The Government is desired to extend generous aid to the marketing activities of such apex societies.

4. Common Facilities

No less important than good marketing, for increased sales is improvement of the quality of products and reduction of cost. Many of the products of the industrial cooperative societies we visited were faced with difficulty in finding a wide market because of quality. A slight improvement in their products would increase their market and a small change in the production system would lower their cost. On the other hand, there apparently lacks an organization to give guidance in improving the quality, design and productive techniques of manufactures. The Small Industries Service Institute does offer guidance to small scale industries but not to cottage industries. More apex societies are required to be organized also for providing such technical assistance to operators of cottage industries.

In this respect as well, the handloom weavers' societies were advanced. The Madras State Handloom Weavers' Cooperative Society, which we visited, has weaving factories of its own and teaches its members how to make cloth of new designs which may meet the popular fancy. The society also manages spinning mills

to hold down the cost of material yarns and operates dye factories as well as a cloth processing centre in an effort to improve the quality of its products and to lower their costs.

Industrial cooperative societies other than the handloom weavers' are urged to form apex societies to enable them to engage in similar activities. Otherwise, their present difficulties would not be resolved but only become serious. The Government is therefore desired to give full assistance to such projects.

II. Necessity of Cooperative Societies in Development of Small Scale Industries

1. *Possibilities of Development of Small Scale Industries*

(1) Regional Distribution of Demands

In discussing the basic conditions for development of India's economy, we must not overlook her huge population numbering 400 million and its vast territory with an area similar to that of the European continent. The large population and vast land forming a single unit of national economy free from tariff barriers promise large possibilities for economic development. However, the extensive stretch of land inevitably entails long distance transportation and consequently high freightage, particularly where the transportation systems are not fully developed. In such cases, it is profitable to develop industries in areas close to consuming centres. It may be for this reason that the village economy in India works almost on a self-sufficiency basis. The self-sufficient economy may be disintegrated gradually by the spread of the transportation network, but the increase in freightage caused by long distance transportation will limit the concentration of productive facilities and induce their dispersion. This economic factor justifies the Indian Government's attempt to disperse Indian industries as one of the targets of its economic development plan, even though the attempt may have been motivated chiefly by social and political factors.

Local distribution of industries necessarily works to the advantage of small scale producers, particularly those of consumer goods. The fact that 70 per cent of the 400 million population are inhabitants of local communities indicates the necessity of dispersed production of consumer goods to meet their enormous demands. Further, these industries are compelled to be operated on a small scale because mass production cannot meet the demands for a wide variety of commodities.

(2) Diversified Demands

The kinds of consumer goods in demand are extremely diversified because of the large number of different commodities and various design of each one. This is especially the case with India, where customs widely differ from region to region. Different types of small scale industries are most suitable in producing different kinds of commodities to meet the diversified demands. For example, in textile production white or solid colour cloth may be manufactured in quantities but material for saris with multicoloured and complicated patterns can be manufactured more efficiently by small scale factories.

The rich variety of products, together with the wide regional distribution of productive activities referred to in the preceding section, promises large growth of small scale industries.

(3) Division of Productive Processes

Although there are bright prospects for small scale industries, it seems that the productive system is not fully consolidated. The development of small scale industries must be achieved through division of the productive processes and specialization in each different process. In the textile industry, for example, technique can be improved and productivity raised by dividing the work into thread plying, preparation, weaving, dyeing and finishing, and letting manufacturers specialize in each of the different process. Specialization can obtain similar results in the so-called assembling industries, in which a large number of parts are made and put together to manufacture such products as bicycles, sewing machines, radio sets and time pieces. In India specialized manufacturing is not quite advanced since we have often noticed different and unrelated productive processes being handled simultaneously without careful planning in small scale factories.

Along with specialization, mutual cooperation among small scale manufactories becomes indispensable. It is needless to say that small scale industries depend much on originality, whereas in large industries, which work on a large capital and complicated organization, there is little room for making use of a creative mind of an individual. Fostering of industries through original ideas provides an impetus to the development of the national economy, but the fact that small scale industries are characterized by originality does not mean that they can achieve an independent growth. The more they become specialized, the more cooperation is required with other industries. Originality and cooperation are the two basic requirements for the growth of small scale industries.

2. *Conditions for Development of Small Scale Industry*

(1) External Economy

It is impossible for small scale industries to achieve independence, as they engage only in partial processes of production. As a result, the more they become specialized, the more they become dependent on external economy. In other words, external economy represents an important pre-condition for the development of small scale industries.

The external economy consists mainly of transportation, communication, power supply and financing. In India, where the national economy follows the so-called socialist pattern, the Government should assume the chief responsibility in providing such basic economic facilities.

Other important components of external economy are the material supply system, sales network and storing facilities, which ought to be provided by the private sector of economy. Complaints we have heard most often during our visits to units of small scale industry concerned the difficulty in procuring raw material and promoting sales of products. Since it is economically infeasible for each unit to own their facilities for buying small amounts of raw materials and selling its meager products, the small scale units are compelled to rely on purchasing and sales agencies.

However, if the small scale industry depends entirely on outside merchants and are cut off from the market, they are likely to become ignorant of market conditions and fall prey to intermediary exploitation by the merchants.

For satisfactory development of small scale industries, therefore, it is necessary that they have a cooperative system of purchase of raw materials and sales of products. In addition, storage facilities will be needed.

(2) Social Division of Work

Another necessary requirement in the external economy for small scale industries is the mutually supplementary relationship within the small scale industry. As production becomes mechanized and the machines more complicated, the manufacturers find it more difficult to repair the machines by themselves. This gives rise to the necessity of repair shops, which again cannot be afforded by each unit and so must be operated cooperatively.

In the engineering industry, no progress can be hoped for without the help of relative industries of casting, forging, plating and tool making. It is not only irrational but impossible for small scale industries to operate all these related industries. The development of small scale industries can be hoped for only where related industries exist in neighbouring areas. In case of their absence, related industries must be created in the neighbourhood by cooperation of

the small scale industries. In assembling industries, cooperation is even more important. They cannot exist without standardized parts because finished products can be assembled only from parts manufactured in accordance with specifications by each of the small scale factories. Therefore, close cooperation among parts manufacturers is essential.

The establishment of industrial estates is a noteworthy attempt to achieve full mutual cooperation among small scale industries. However, it is considered that the membership of the estate should be studied further in order that the estate may contribute to establishing supplementary relations among small scale industries. Such studies should enable common facilities to be operated cooperatively by small scale industries. This is considered to be the general direction toward which the smaller industries should advance.

Only after such social division of work as mentioned above will small scale industries have a chance to make progress. By specializing in certain of the multiple production processes, individual industries can adopt a mass production system, though on a small scale. But advancement in division of work necessitates closer ties among related industries.

3. *The Function of Cooperative Society in Small Scale Industry*

(1) Cooperation in Small Scale Industry

It has been stated in the previous section that cooperation is an indispensable prerequisite for development of small scale industries. Despite this fact, little cooperation is seen in small scale industries of India. We perceive its slight sign only in the industrial estate and the Central Engineering Organization of Western Bengal State. Moreover, these organizations have been created and are operated on the initiative of the Government and not by voluntary cooperation of the small scale industrialists themselves.

The lack of cooperation in small scale industries may on the one hand be attributed to the absence of cooperative spirit on the part of the small scale industrialists themselves and on the other hand to the negative attitude on the part of the Government. Although the Government displays positive interest in cooperatives of agriculturists and artisans, and gives them full protection and assistance, it seems to assume a negative attitude toward cooperatives of small scale industrialists. In comparison with large industries, however, the small scale industries are placed in a disadvantageous position with regard to raising of capital, purchase of raw materials and sales of manufactures. These disadvantages cannot be overcome without cooperation. If fostering of small scale industries is

deemed desirable for the development of Indian economy, it is considered natural that the Government should take positive steps to encourage cooperation among them, which is essential for stimulating their growth.

(2) The Function of Cooperative Societies for Small Scale Industries

Now I shall explain more concretely how Cooperative Societies for small scale industries can eliminate the pressure of large capital on small scale industries and how they can contribute to the development of small scale industries.

A. Purchase of Raw Materials

The small scale industries' demand for raw materials is small. Besides, industrial establishments are in most cases detached from the market supplying raw materials. Under such circumstances, the materials go through several intermediary stages before they reach the small scale manufactories and as a result their prices will rise. In order to improve the purchasing condition, the cooperative society can collect the orders of its members and make large purchases for them. By so doing, the society will be able to grasp the changes in the market and make purchases on profitable terms. An additional benefit of collective purchases is that the quality of the raw material can be controlled. In small purchases, it seems unavoidable that the quality changes by each purchase. This, in turn, will require adjustments in productive processes each time a new supply of material is obtained, thus making quality control extremely difficult. The material purchase by the cooperative society will greatly help overcome this difficulty.

We have heard much complaint from small scale industrialists about the procurement of Government-controlled materials, such as iron, steel, coal and coke. Measures should be taken to give priority to cooperative societies in allocating these controlled materials. This will not only eliminate the troublesome procedures required in distributing these materials among individual industrial firms, but also enable the Government to exercise full control over the cooperative society. This eventually is expected to encourage cooperation among small scale industrialists.

B. Sales of Products

It seems that the products manufactured by small scale industries are usually brought into market through merchants. Thus, small scale industrialists are cut off from the market and are compelled to comply with unprofitable sales terms because of their

ignorance of the market situation. Many of them are unable to put out new products to meet the changing demands, and consequently adhere to old-fashioned manufactures and eventually lose out on the market. Further, since they have no means of publicizing and advertising their merchandise, they cannot compete with large industries.

These disadvantages can be overcome by sales by cooperative societies. By making collective sales of products of its members, the cooperative society can help reduce the sales cost and make the best use of publicity and propaganda. However, in conducting such mass sales, uniform quality of the merchandise becomes an important prerequisite. In order to ensure quality control, the society must examine the products of its members and refuse sales of commodities which do not meet the prescribed standards. To commodities which have passed the examination, the cooperative society affixes its mark to guarantee the quality. Sales of marked products would be secured if the mark gains public recognition as standing for quality goods.

It is a basic economic principle that profit will increase in proportion to the amount of material purchase and sales of finished goods. Therefore, if sufficient amounts of purchase and sales cannot be made by primary societies, it is desirable that a federation of societies discharge the function. If necessary and feasible, an apex-society representing primary societies of a state or even the whole nation should be organized and engage in purchase and sales.

C. Production and Processing

Since small scale industries are charged with different parts of a whole manufacturing process, rational productive activities cannot be achieved without the cooperation of relative industres. However, it seems that in India relative industries do not exist in neighbouring areas and the raw materials and intermediary products must be transported over long distances. Under such circumstances, members should benefit greatly if cooperative societies are organised to create common facilities to manufacture related products.

In a series of productive processes, the minimum productive scale occasionally differs technically according to each unit process. For example, in the textile industry, the minimum productive scale of spinning differs largely from that of weaving and that of dyeing and finishing. The raw material processing and finishing of the final product are usually conducted on a large scale, so that the

small scale industry, which is charged with intermediary processes, cannot avail themselves of the raw materials and finishing on suitable terms. In such cases, the cooperative society will prove of great benefit to its members in obtaining raw materials and final finishing.

In the engineering industry, manufacturing of machines of high accuracy often requires the use of expensive precision instruments, which cannot be afforded by individual firms of small scale. It would be beneficial in such cases for the cooperative society to own the precision instruments as common facilities of its members. We have seen many instances in which the state government owned and managed such common facilities. This may be a suitable temporary measure in the early stage, but the management should be passed on by degrees to the cooperative society.

Despite the fact that inspection of raw material and finished products is an important factor in improving the productive system and the quality of products, very few of the small scale units which we visited enforced such inspections. Since it is difficult for individual industrial establishments to own inspection facilites they should be owned by the cooperative society as common facilities.

One of the problems with which small scale industries are faced is the short supply of skilled labour despite the Government's considerable efforts to train skilled workers. Since the workers can be most efficiently trained at work shops, it would greatly benefit the society members if the training institutes are operated as common facilities of the cooperative society.

D. Transportation and Storage

Transportation and storage facilities perform the function of a string connecting material purchase, production and sales. Although this function is essential to the development of small scale industries, it is not performed fully in India today. For in that country transportation distances are long and the demand fluctuates largely by the season, it is particularly necessary that these functions should be discharged satisfactorily. The cooperative society again can help its members by operating common facilities for transportation and storage sufficient to meet the members' demands.

E. Financing

We have heard much from small scale industrialists about their financial difficulties. Because of the small scale industrialists' pecuniary resources, small credit and lack of property to be mortgaged, commercial banks do not show much interest in making

loans to small scale industries. Another deterrent to loans to small scale industries is the relatively small profit drawn by the bank from the small industrial loans in comparison with the great trouble required in investigations and complicated procedures.

In financial problems, too, much can be done by the cooperative societies. Mass purchase of materials, collective sales of manufatured goods, and operation of warehouses to store these materials and products by cooperative societies increase the value of the merchandise to be offered as security. The bank, too, benefits from doing away with the trouble of investigation and procedures for small loans. Cooperative Societies have no defects in keeping account books, which often cause difficulty in making loans in the case of small scale industries.

The loan obtained by the cooperative society can be passed on to its members. In such cases, no complicated investigation is necessary because the society has full knowledge of the business conditions of its members. Therefore, the society may extend loans without security to members with good business records.

The cooperative society can also stand security for its members with good business records. With the guarantee of the society, the bank with which it has an account may extend loans without security.

Thus, the cooperative society can perform valuable functions in removing the obstacles standing in the way of financing of small scale industries, but not completely. To surmount additional difficulties, the cooperative society should organize an industrial cooperative bank in each State to promote mutual financing among the cooperative societies. The Government's loans to the cooperative should be made through this bank. These points will be mentioned in detail in Chapter IV of the present report.

III. Establishment of Cooperative Society for Small Scale Industry

In order to strengthen the existing cooperative system we recommend the establishment of the cooperative system for small scale industry based on a new conception. The establishment of the new system is practicable under the Cooperative Societies Act now in force, but it may involve some difficulties. It is therefore considered pertinent to materialize the idea through enactment of necessary legislation. Main points of the new system are as follows.

1. *Membership*

The membership of the Society for Small Scale Industry will cover those who carry on small scale industry. Needless to say,

large scale industries shall not be admitted to the new cooperative society. It is also undesirable to admit such sympathizers not duly qualified under the by-laws of the Society.

The reason is that the admission, as sympathizers, of industrial units whose interest conflicts with that of members, such as dealer in material and merchants selling manufactured goods, is likely to infringe on the interest of members.

Nor are employees not operating small scale industry under their own names eligible to join the society, for the interests of an enterpreneur and those of an employee do not necessarily reconcile with each other. However, those artisans who depend solely on their own labour or family labour, are naturally qualified to join the society provided that they have dealings, under their own names, with other persons or firms.

Furthermore, any production cooperative society formed by artisans or workers which has the qualifications for membership as provided by the by-laws, should properly be admitted to the new society. For example, if a handloom weavers' society runs a dyeing-finishing factory as common facilities for members, it will be qualified to join the cooperative society for small scale industry whose membership covers those engaged in dyeing-finishing.

The members of the cooperative society for small scale industry should be bound as far as possible by common interests. This is quite natural because the cooperative society for small scale industry is aimed at the promotion of the members' common interests. Accordingly, the membership should be limited to those in certain adjoining districts. Particularly, in the case of a cooperative society whose chief object is the establishment of common facilities for production and processing, the membership should be open only to those who reside in areas with easy access to the facilities.

However, in the case of a cooperative society which is chiefly aimed at the purchase of materials and sale of manufactured goods, it may be advantageous to have a wider district for membership not exceeding the area where the members may have a community of interests, for the reason that, if the district for membership is too narrow, it will be against the benefit of purchasing a large amount of materials and selling a great volume of products. The extent of the district for membership should be considered and determined from the viewpoint of the cooperative society's object and the type of members' industry.

What is required further of the members' qualifications is that their trades should be similar as far as possible both in type and

in scale. Although the similarity of types of members' industry is desirable, it is possible to include in the membership those engaged in relative industries. For example, it may be advantageous to grant membership to industrial units engaged in the eariler stage or the latter stage of production process, or the units making different parts of the same manufacture. In this case, due regard should be given particularly to the similarity of the scale of members' industry, otherwise the inequality of their business scale might give birth to the relationship of a ruling group and subordinate group between the members.

Any industrial unit which comes under the category of small scale industry defined by the Act may become a member of the new co-operative society regardless of whether its enterprise is operated by an individual or a company. It is absurd that membership in a co-operative society should be denied to the individual proprietor and the firm for the reason that they are capitalists. It means nothing but primitive sentimentalism reflecting the "pastoral tradition of the cooperative movement" in early days of capitalism. In actual fact, in the case of the Indian society, it cannot be gainsaid that the scale of enterprises is becoming larger gradually. Under the present state of things, since the sound development of small scale industry constitutes the most important factor in pushing on the industrialization policy and in solving the employment question, it is advisable to bring as many small scale industrial units as possible under the small industry cooperative system to be established newly. It is considered proper and also ardently desired that any existing co-operative society should join this new cooperative society as a member.

2. *Organization and Operation*

The cooperative society for Small Scale Industry should be made a body corporate with limited liability.

As regards the payment of the share capital, it is necessary to fix the minimum limit, say a quarter of shares subscribed. This should be done because the provision of sufficient capital is a prerequisite for successful operation of the cooperative society.

It goes without saying that the cooperative society for small scale industries should be organized and operated on the basis of the general principle of the cooperative society.

Since the cooperative society principle is well-known, no further explanation may be required, but the organization and operation of the cooperative society for small scale industry will be touched on briefly, for questions were put to us at various places during our

travel as to the difference between the cooperative society for small scale industry and a business firm.

(1) The cooperative society is aimed at the promotion of the economic interests of its members but not at money-making.

(2) The share holding of one member should be limited in such a way as not to exceed a certain number fixed, say one-fifth of the total shares of the society. However, it is not necessary to limit the share holding to a fixed amount of money.

It may be pointed out that if one member's share holding is limited to a certain portion of the total number of shares, there will not be the least fear of his dominating the society, but that if a member's share holding is limited to a certain amount of money, the total amount of capital will become deficient, thus making the society's activity difficult.

(3) The supreme organ of the cooperative society to decide its will is the general meeting of members. The decision by the general meeting is required on important matters, such as the revision of the by-law, establishment, revision or abolition of regulations, estimation of revenue and expenditure for each business year, formulation of business plans or their revision, methods of imposing fees and other financial charges and collecting them, appointment of officials, dissolution or amalgamation of the society, expulsion of a member, and transfer of the society's entire business.

Each member has one vote at the general meeting regardless of the number of shares held.

(4) The management of the cooperative society will be exercised by the Board of Directors elected at the general meeting. Directors will be elected as a rule from among members. However, since special knowledge and experience are needed for the operation of the cooperative society, the appointment of a certain number of directors, say one-fourth of the total, from the outside should be recognized.

(5) The entrance into and withdrawal from the society should be free in principle. With regard to the admission of any person eligible for a member under the by-law, no conditions more strict than those in the case of other members should be imposed. Furthermore, as to the withdrawal from membership, no member should be restricted in seceding from the society at the end of the business year by giving a notice of a certain period.

(6) With respect to the distribution of profits, a certain limit should be set legally. In the first place, not less than a certain portion

of profits, say 25 per cent, will be put aside as a reserve and dividends corresponding to shares will be limited to a certain proportion, say 6 to 7 per cent of the paid-up share capital each year. The remainder of profits will be paid back to members according to their respective contributions to the society's activity.

3. *Guidance, Assistance and Supervision*

(1) Guidance in Formation

For the promotion of organization of the Cooperative Society for Small Scale Industry, special laws should be enacted if necessary

The Cooperative Society for Small Scale Industry ought to be an autonomous organization, but since few such organizations exists at present, it is necessary for the Government to give education for stepping up the formation of cooperative societies for small scale industries and to assume positive enlightening activity in this connection.

Indian small scale industrialists, however, appear, to be not accustomed to cooperative activity and therefore it is necessary to conduct education and enlightenment activity on the necessity of cooperative activity, the method of operating cooperative society and the utility of the cooperative society so as to lead such industrialists to organize cooperative societies on their own initiative.

In view of the necessity of such guidance, the authority to register and exercise supervision over cooperative societies for small scale industry should be given to the Director of Industry of the State Government.

It is also desirable to establish a department in Ministry of Commerce and Industry, Government of India, for forming policies and making plans concerning industrial cooperatives and further for coordinating policies of State Governments.

(2) Assistance for Common Facilities

As the common facilities form the most important of cooperative societies' activities and are indispensable for the development of small scale industry, positive financial assistance must be given for their establishment. The common facilities now being operated by the State Government should be transferred gradually to cooperative societies. The financial assistance for the common facilities is not required to take the form of grant-in-aid, but at least it must be a long-term loan without interest. In case a mortgage is required as a condition of the loan, the facilities in respect of which the loan is sought may be offered as the mortgage.

(3) Assistance for Marketing

Marketing is one of the most important roles which cooperative societies have to play. Fruitful results of marketing cannot be expected unless it is done on a considerably large scale.

As to handloom, handicraft, khadi and village industries, marketing activity is assumed by State Governments themselves and fairly good results are being produced, but it would be more appropriate to have cooperative societies do marketing in respect to products of small scale industry. In the case of handloom and handicraft products as well, marketing activity should properly be transferred step by step to cooperative societies, in the near future. But, considerable funds are needed for this purpose and cooperative societies will be unable to do this work solely on their own financial resources and therefore the Government is required to give aids for the establishment of emporia and depots. In view of the necessity to do marketing on a large scale, it seems proper to choose apex societies or federations as recipients of aids.

The manner in which financial assistance is to be extended may well be considered to be the same as that in the case of common facilities. Further, in the case of the Government's purchase, too, priority should be given to cooperative societies for the supply of necessary goods to it.

(4) Financing

Inasmuch as the loans with which cooperative societies are accommodated now in respect of share capital may produce, it is feared, such adverse effects on society members as may lose their independence, it is unnecessary to extend loans to Cooperative Societies for Small Scale Industry for the same purpose. Long-term loans of low-interest for working capital are necessary, but it is desirable that such loans will be made through the industrial cooperative bank to be mentioned in Chapter IV, instead of direct from the Government.

(5) Reduction and Exemption of Taxes and Other Impositions

Cooperative Societies for Small Scale Industry will be exempted from the Stamp Duty and Registration Tax. As regards the Income Tax, it will not be levied at least on legal reserves and on bonus based on the degree of utilization of cooperative societies.

(6) Allocation of Raw Materials

In respect to the materials whose allocation is controlled, cooperative societies should take precedence of individual industrial units in receiving allocation.

(7) Others

Aids should be given to training institutes for skilled labourers, experiment and research facilities, and also inspection facilities run by cooperative societies. At present the above facilities are operated by the Government themselves, but they should maintain only basic ones and should hand over gradually the management of the other facilities to cooperative societies.

As a general principle governing the various aid measures mentioned above, it is desirable that the aid measure, under the current policy, of extending aids directly to units of small scale industry will be abolished step by step and instead aids will be given through cooperative societies. It is undesirable on the one hand, from the viewpoint of equity, to grant special favour to a limited number of profit-making enterprises and on the other hand it is inefficient, from the angle of administrative efficiency, to apply administrative measures directly to many small scale industrial units in the above way.

It is advisable to give aids collectively to the cooperative society which is a non-profit body, and to extend the benefits indirectly to its members—small scale industrial units—contributing to the rousing of the spirit of enterprise and independence of small scale industrialists.

IV. Popularization of Trade Association

1. In order to lead the industry to make efforts for its improvement and development under the organization by industrialists on their own initiative, we wish to recommend to the Government the popularization of the organization of trade association. The main points of the recommendation are as follows.

Usually small scale and cottage industry is engaged in production, being separated from the market. Although the trend of the market is changing constantly, products of the industry show little or no change for many years. As a result, it not infrequently comes to our notice that overproduction is caused from the short-range point of view, and that in the long run products of other industries have displaced those of small scale and cottage industry in the market, thereby bringing about its decline.

It is necessary to follow up constantly the trend of the market and to have products and designs adapted to the requirements of the market if the sound development of small scale and cottage industry is to be desired. It is considered that products of small scale and cottage industry in India do not necessarily satisfy the requirements of the market. For example, the workmanship of

many handicraft products is excellent, but they are mostly ornaments and there are only a few articles of practical use. We wonder if low-income classes forming the greater part of India's population are not able to buy such expensive ornaments.

We hear that many handicraft units apparently have poor orders. It would be difficult to try to find a market for expensive ornaments which pleased the fancy of nobles in feudal days, even if their production is carried over to the present age. A market can be acquired only if articles of utility are produced to fill the demand by low-income classes representing the greater part of the population. The workmanship for handicraft products can be employed for the production of articles of practical use.

From the foregoing example it can be well understood how necessary it is to have products adapted to the requirements of the market. Also in Japan there are many examples showing that industries which succeeded in grasping the real trend of the market have prospered, while others which failed to do so have gone to decay. There is fear that some of small scale and cottage industries will be bound to decline in India unless efforts are made from now on to have products meet the requirements of the market. Even if careful protective measures are taken by the Government, industries which do not satisfy the requirements of the market will not possibly survive.

It is almost impossible for individual small industrial units to ascertain what type of products are in demand and to direct production in a right direction. The most suitable organization which can perform such functions is the trade association.

As far as we have seen, trade associations of small scale and cottage industry are few in India, and where a trade association is organized, it does not appear to be very active. In view of the necessity to lead small scale and cottage industry into a right direction on the initiative of the industrial circles concerned, it is needed to step up the organization of trade associations.

Since the trade association plays a leading part in the activity of the industrial world, it should be composed of industrial units of the same kind. Accordingly, a trade association embracing all small scale industries, which is frequently met with in India, may not be very useful.

In the meantime, the trade association should cover as wide an area as possible and include as many units of the same trade as possible. In India it would be reasonable to organize a trade asso-

ciation for each state or one association for some states. The establishment, if possible, of the federation of trade associations over the country is desirable. As the trade association is an organization for industrial units of the same kind, it is advisable that as many fellow industrialists as possible join the association. In case there is a large-scale industry of the same kind within the association's area, its admission to the membership is desirable.

Since the trade association is an organization set up by the industrial world on its own initiative, any regulation affecting the association by enactment of legislation is unnecessary. Moreover, in principle no special supervision or aid should, in principle, be exercised or granted.

2. *Functions of Trade Association*

(1) Market Research

The most knotty point in the operation of small scale and cottage industry is that the industry is isolated from the market and unable to understand quickly and accurately the trend of the market as mentioned in the preceding part. With a view to removing the difficult point, the trade associa ion should always keep an eye on the trend of the market of materials and manufactures and furnish its members with information thus obtained.

On receipt of the information, the members may be able to purchase materials and to sell manufactures on more favourable terms. Moreover, with accurate information on the market, members can prevent precipitous overproduction.

We have seen at various places of India a rapid expansion of small scale industry. There is an increasing number of people who intend to make investment in this type of industry. However, the majority of them seem to have no clear view of the market. In addition, many of them are planning to invest in the same kind of industry. If such overlapping of investments actually occurs, one cannot guarantee that no partial overproduction will occur. Excessive investments like these can be prevented in case the trade association provides accurate information on the market.

Furthermore, market research to be conducted by the trade association will probably contribute to the production by its members of goods meeting the requirements of the market. The association will not only be serviceable for production of goods which can fill the ever-changing market demand, but it will be able to create new demands.

The variety of manufactures supplied in India appear to be considerably limited, but consumers cannot help contenting themselves with manufactures, available to them. Nevertheless, there is no doubt that they want more convenient and more attractive products. If the trade association conducts research concerning the potential needs of consumers and takes measures to produce articles satisfying such needs, there will probably be considerable room for creating new demands.

The greatest difficulty encountered in the study of the activity of small scale and cottage industry in India is the lack of statistical data for investigation. The trade association is required to be provided with the statistical data at least relative to its members. They will derive much benefit from these data.

(2) Guidance in Technique and Management

Since small scale and cottage industry cannot afford to conduct research by itself regarding production technique, industrial operations are made in the old form in most cases. However, the technical progress in the world is really surprising. If small scale and cottage industry continues to depend on the outdated technique for production, it will have to go into decay before long.

It is necessary to make incessant efforts to keep pace with the world-wide progress of industrial technique. This does not mean the necessity of immediate introduction of the latest technique in the world. Really, not a few kinds of technique can be adopted at very limited expenses. The scheme taken up in India for the betterment of the charkha and handloom is the case in point.

The trade association should continuously collect information on technical progress in the world and keep its members immediately informed of the technique adoptable in the local industrial world as promptly as possible. The members may benefit greatly from the information on technique provided by the association.

It is one of the important functions of the trade association to make replies to questions put to the association by its members concerning technical matters, and to hold training courses and meetings for study on technique.

What is lacking in small scale and cottage industry, in addition to technique, is the knowledge of business management. Many units of small scale and cottage industry do not keep even simple account books. One of the important reasons why banking institutions hesitate to lend money to this type of industry is that its business condition is not clear for lack of account books. It is, therefore, necessary to clarify the business condition by popularizing the use of simple book keeping.

We could hardly find any units of small scale and cottage industry which make cost accounting. It is difficult to expect the rationalization of business management unless cost accounting is made, but considerably high degree of special knowledge is required for cost accounting. It is, therefore, necessary for the trade association to study the method of cost accounting suitable for its members and to give guidance to them in making cost accounting. Furthermore, the association should guide its members in technical matters concerning management, such as the formation of the production plan, the process control, quality control, the labour control.

(3) Public Relations

Not any kind of industry can ever develop itself independently of the society where it has its position. Any industry can expect its normal development only by establishing close cooperative relations with relative industries, namely, those supplying materials and requiring its manufactures and also with terminal consumers. In India, since the role played by the Government on economic development is extremely large, it is important for the industry to maintain cooperative relations especially with the Government.

It is the function of the trade association to maintain and promote close cooperative relations with the outside world. Small scale and cottage industry seems to be lacking generally in such public relations. Although the Government gives various aids for small scale industries, the cases of those utilizing Government services of this kind are comparatively small in number. For instance, the number of applications for loans to small scale industry by the State Bank of India and also of those for such loans under the State Aids to Industries Act is surprisingly small. Does not this fact show the lack of close relations of small scale industries with the Government?

Relations with consumers are also very important. It would be no exaggeration to say that the intention of consumers determine the fate of industry. However, small scale and cottage industry experience difficulty in making consumers fully understand its own manufactures for lack of advertisement and propaganda activity. If measures are taken to cause consumers to understand its manufactures thoroughly and improvement is effected in compliance with the will of consumers, the market for products of small scale and cottage industry can be expanded greatly. The activity on the part of the trade association for promoting public relations is indispensable for the development of small scale and cottage industry.

Chapter IV

FINANCE

1. Summary

The banking institutions in India can be divided roughly into the comparatively outdated ones such as money lenders, indigenous banks, etc. which have existed since olden times, and the modern financial organs, *viz.*, the Reserve Bank acting as central bank, the State Bank of India and private banks (scheduled banks and non-scheduled banks). In addition, there are cooperative banks which have grown since early days of the 20th century as a result of the advance of the cooperative movement and under the protection of the Government and a number of Government financial agencies which were organized by the Central or State Governments shortly after India obtained independence.

These groups of banking institutions have contributed to the economic development of India, performing their mutually complementary roles. However, it is considered that there are not a few unsatisfactory points in business intercourse between these groups in respect to the monetary market. As regards interest, for instance, banking facilities other than Government agencies fix their respective interest standards in their own ways and they did not appear to maintain any standard which may apply on a nationwide basis.

It is desirable that various types of banking facilities should give full play to their respective character by keeping contact with each other if the development of small-scale industry in the future is to be desired. Further, credits extended by financial organs including banks is insufficient in proportion to the vast area of country.

According to the statistics for 1958 (Statistical Statements relating to the cooperative movement in India, 1957-58, by the Reserve Bank of India), the number of scheduled and non-scheduled banks is, 4,495, and even if government financial agencies are added, the total number of these financial organs is considered to be comparatively small.

On the other hand, the spirit of saving of the general public in India does not appear to be high. It is necessary to conduct further movements for increasing savings in order to utilize, through banking institutions, hoarded and concealed wealth in India with a view

to stepping up production. The interest of commercial banks (excluding part of moneylenders) is comparatively low, not to mention that of Government financial agencies. Loans on mortgages are popularized and money lending by commercial bills and on personal guarantee seems to be rare. Because of the strict attitude taken in the matter of financing, however, commercial banks' funds, which are most important to small-scale industries, do not serve them in good stead, causing a defect seemingly in cooperative activity and therefore, in view of experiences in Japan, we recommend the establishment of the credit guarantee system combined with the insurance system in order to obviate the defect, (particulars to be mentioned later).

Although cooperative banks are set up in various places, they do not advance loans extensively to small-scale industries except for handloom industry. The cooperative bank has such characteristics as being a systematized bank as in the case of Japan, but banks of this type of India advance loans mostly to agricultural unit because of the circumstances concerning their establishment and also of their principal aim, since the beginning, laid at financing agricultural industry. However, agricultural loans and industrial loans have their respective features and it is, therefore, considered that there should be difference between the two kinds of loans in the policy of advancing them.

Accordingly, it is deemed more effective for developing quickly small-scale industries to draw a sharp line between them and to operate the two types of loan business independently of each other in order to give full play to each type of loans.

2. Current Situation Concerning Finance to Small-Scale Industries

a. *Commercial Banks*

A commercial bank is the most powerful of banking institutions in capital and business scale and its principal business is to make short-term loans as apparent from the process of its development and it makes transactions strictly on a commercial basis. They seek, in principle, chiefly commodities as mortgages and anyway real securities such as immovable property, gold bullion and Government bonds, and loans without any security are very few. Banks are quite prudent in the matter of money lending. The interest is low being necessitated by the supply and demand situation concerning funds, and the prevailing rates of interest are 50—60 per cent.

According to the amount of capital, commercial banks are devided into two types, such as (1) scheduled banks including the State Bank of India (91 banks, 2,852 offices) and (2) non-scheduled banks (256 banks, 865 offices). But, those which serve as Reserve Banks are the banks of the former type.

The major account of scheduled banks are as follows:

A. State Bank of India

Unit =one million Rs.

a/c	1957	1958
1. Paid-up Capital	56	56
2. Reserves	63	70
TOTAL	120	126
Proportion to 3	3·3%	2·6%
3. Deposits	3,666	4,787
4. Cash	395	555
Proportion to 3	10·8%	11·6%
5. Investments	1,834	2,846
Proportion to 3	50·0%	59·5%
6. Loans & Advances	1,546	1,586
7. Bills Discounted & Purchased	189	135
TOTAL	1,735	1,721
Proportion of 6+7 to 3	47·3%	35·9%
8. Net Profit	19	19
9. Number of Offices in Indian Union	622	712

(SOURCE : "Statistical Tables relating to Commercial Banks in India for the years 1958" by Reserve Bank of India, Bombay).

Major a/c of Other Scheduled Banks are as follows :

B. Other Banks

Unit= One million Rs.

a/c	1957	1958
1. Paid-up Capital	291	299
2. Reserves	232	250
TOTAL	523	550
Proportion of 1+3 to 3	6·1%	5·6%
3. Deposits	8,571	9,795
4. Cash	1,091	1,008
Proportion of 4 to 3	12·7%	11·3%

a/c	1957	1958
5. Investments	2,795	3,816
Proportion of 5 to 3	32·6%	38·9%
6. Loans & Advances	4,322	4,682
7. Bills Discounted & Purchased	942	1,007
TOTAL	5,263	5,689
Proportion of 6+7 to 3	61·4%	58·1%
8. Net Profit	75	66
9. Number of Offices in Indian Union	2,584	2,852

(SOURCE : "Statistical Tables relating to Commercial Banks in India for the year 1958, by Reserve Bank of India, Bombay).

In any case the ratio between deposits and advances indicates a considerable surplus in the bank and it may be said that commercial bank shows pretty sound development. On the other hand, it is undeniable that there are unsatisfactory points in the attitude of banking institutions towards small-scale industries.

It appears that commercial banks have recently begun to have an interest in advancing loans to small-scale industries, but the money lending to them has been very limited so far. For example, of the total amount of loans given by scheduled and non-scheduled banks coming to Rs. 7,638 million, the loans advanced to small-scale industries are said to have been only Rs. 229, representing 3 per cent.

The State Bank of India was called the Imperial Bank and was the largest commercial bank in that country, but it was charged with the business of supplying working funds to small-scale industries after having been nationalized in 1957. Accordingly, the bank proceeded to advance loans positively to small-scale industries along lines of the policy of the Government.

To speak precisely, since March, 1956, the bank has been giving short-term loans with security to small-scale industries at comparatively low interests (4·5%—6%) under the so-called pilot scheme.

This formula is being adopted gradually by branches at various places. Additions have been made to the acceptable types of securities and as to the appraisement of securities, the bank authorities say that generosity will be shown in the matter (70—80% of the actual value).

Furthermore, it has been decided recently to give long-term loans (7 years). As regards the actual results of advances to small-scale industries, it may be mentioned that there were only 795 cases of accommodation of funds in the aggregate and Rs. 26 million in amount (the amount of outstanding loans being Rs. 8·6 million). When the amount of outstanding loans to small-scale industries is compared with the total amount of outstanding loans of Rs. 1,586 million of the State Bank, the former's proportion to the total amount is only 0·6 per cent. Although it is not long time after the bank was nationalized, it must be said that the actual results of bank's money lending concerning small-scale industries have belied greatly the expectation originally entertained by the Government.

What is interesting to us is the way of keeping in custody securities, such as land, factory buildings, machinery, raw materials, finished goods and goods processed. The methods used for the above purpose are "lock and key" and "Factory Type". According to these methods either the storehouse attached to the loanee's plant is locked or a notice is put up at the place for goods with the indication that the goods are in pledge, and the taking in and out of goods is watched.

Although loans seem to be advanced on personal security in the case of customers of long standing, importance is here attached to real security.

With regard to small-scale industries, the bank authorities point out the following points: (1) insufficiency of their credit, (2) lack of clearness in the manner of keeping account books, (3) inadequate ability to sell manufactures and (4) shortage of securities.

It has to be admitted that both the governments and the State Bank of India are making great efforts for expanding the accommodation of funds to small-scale industries, but what is really needed is to enable them to utilize the funds of commercial banks to a greater extent. Moreover, it is considered necessary to institute a system of guaranteeing losses for promoting increased financing to these industries, to say nothing of further endeavours by the Government agencies concerned.

It is necessary to heighten the credit standing of small-scale industries, but it is more effective and efficient for this purpose to render guidance and enlightenment service through the respective cooperative societies (cooperative societies of small-scale industries recommended in other parts of this report, the same will apply hereinafter) instead of guiding and educating each industrial unit individually. This has been proved to be true in Japan and the same is considered to be the case with India.

It appears to be desirable that the Government will take its position as a third party in the activity of cooperatives, with emphasis on internal guidance instead of participating directly in their business operation.

It is necessary more than anything else to train units of small-scale industries in assuming voluntary activity comprehending the enterpriser's spirit, and it is undeniable that financial aids and other assistance measures such as may work to encourage industrial units' dependence are less effective for the above purpose.

(b) State Aid to Industries Act

According to certain statistics, the aggregate of loans extended to the small industrial units, under the Act amounted, for the three years 1956—'58, to Rs. 60 to 70 million (granted to 12,545 units and 426 co-operatives), while another statistics gives the amount as Rs. 52 million for the same period. So, the total amount of loans for the small-scale industries may be estimated fairly well, even if Rs. 8 million of loans recently advanced (as of the end of March, 1959) by the State Financial Corporations and the co-operative banks in the capacity of the State Governments.

Features of the system are to be found in the security and the interest rates.

Money can be lent even with the guarantee by one single person if it is a petty loan, as much as 75 per cent is applicable as the security value for the property offered, the term is long (7—15 years), and the interest rates are very low (3 per cent per annum; 2·5 per cent for co-operatives). With these favourable conditions, this can be considered as the best of all kinds of loans to be obtained by the small-scale industries.

This system of loan, however, is not observed to be very popular among those who need money, reasons for which are said to be the troublesomeness and too much complicated procedures involved after filling the application. Seeing from the amount extended, nevertheless, this is the one most widely utilized of all the various sorts of governmental loans.

In fact, loan applications are grouped by the size of sum for each State, and for each such group is designated by the State Government a subordinate State organ to handle the affair and is made solely responsible for decisions on applications.

The prevailing practice, however, is subject to such complications and intricacies as are common to the cases of governmental transaction of administrative affairs.

Organs making decisions as to big loans (of more than Rs. 10,000) hold a meeting every two months for consultations, and examinations made by them for loans appear to be stringent.

If the stringency of the examinations is put out of question here, this type of finance, it is advised, should be run with greater efficiency and smoothness, if entrusted to financial institutions as early as possible, the government only exercising proper supervision over those institutions from a wider, higher point of view.

We deem it very advisable that some States have already entrusted the State Financial Corporation and co-operative banks with the business. At least such procedures as delivery of funds, receiving refundment of loan, evaluation of the proposed security and others should be referred to financial institutions at an early date. Different terms on loans by State are desired to be unified through the steps proposed here.

(c) State Financial Corporations

Being governmental institutions established in accordance with the law of 1951, these Corporations have been set up in almost every State, now totalling 12.

The chief function of the Corporation is to advance loans for equipment funds on both medium and long terms (between 10 and 12 years) and for working capital for less than 5 years.

The amount of each a loan will be between 104 and 100 RP extended on security basis, 6 to 7 per cent interest being charged per annum.

The total amount of loans outstanding as at the end of 1958 is as follows:

	Toal amount of loans outstanding	amount of loans to small-scale industries outstanding	percentage
Cases	765	372	49
Amount (in millions of Rs.) . .	1,207	181	15

The table shows that the amount of loans given to the small-scale industries is very small, more loans have been made to the large and medium-scale industries.

Loans are extended mostly to individual proprietorships and the ratio of loans to co-operative societies is very small.

Figures (1958-'59) of the State Financial Corporation of Bombay in the capacity of governmental agency are given as an example:

	Number of Cases	Amount (in 1,000 Rs.)	Amount per case (1,000 Rs.)
Application	235	12,069	52
Funds Delivered	32	380	12

As is shown below in the figures of the West Bengal Financial Corporation for the past 5 semi-annual terms:

	number	amount (in million Rs.)
applications—		
total	313	788
of small-scale industries	127 (40%)	72
applications accepted for small-scale industries (percentages in total applications by them)	11 (9%)	13 (18%)

the ratio to the small-scale industries is very low.

This is not due to the shortage of funds on the part of the State Financial Corporation and cannot but be attributed either to (1) the general lack of credit on the part of applicants or (2) careful selection of applicants by the corporation. In addition, it is quite necessary to improve complicated procedures on the part of these financial corporations and their personnel should at least be reinforced. The entire personnel of both the Bombay and the Bengal Corporations is about 13 each.

NOTE: *The personnel of the West Bengal Financial Corporation is composed of:*

Secretary	1
Accountant	1
Personal Assistant to the Mg. Director	1
Senior Assistants	2
Junior Assistants	1
Stenographer	1
Clerks	2
Peons etc.	4
TOTAL	13

These Corporations have been established in 12 States many of which are conducting business only by the main office.

State Financial Corporation in Bombay and a few in other States have branches of their own or other banks as their agents in such matters as of receiving applications.

Even then, it is undeniable that their own personnel, who are mainly responsible for the key business, is too small in number.

It is therefore necessary to increase full-time officers, making the greatest use of public relations activities, enabling the business transactions more efficient as well as prompt.

(d) Co-operative Banks

These types of banks may be classified into three kinds, namely, the State Co-operative Banks, Central Cooperative Banks and the Primary Credit Societies.

The State Co-operative Banks extend loans, whose source of funds is composed of deposits they receive from the Central Cooperative Banks established in each State and from the general public and the money they borrow from the Reserve Bank of India, to the Central Cooperative Banks and through them to the primary co-operative societies, both on short and long term.

The Central Cooperative Banks receive deposits from the Primary Cooperative Societies and others, and with this fund together with the money borrowed from the Government and commercial banks as source, they accommodate chiefly the Primary Cooperative Societies with short and medium-term loans.

The Primary Cooperative Societies are divided into two kinds, one for agriculture and the other for other industries. They make short-term and medium-term loans to their members with the

resources consisting of capital contributions, deposits and borrowed money.

In addition, urban banks by the cooperative formula found in the urban districts and similar ones offer petty loans to the populace and loans to merchants. These systematized banking institutions have a long history in India and are now a great financial power, having been supported, for one thing, by cooperative movements conducted by the Government. They are, however, financial facilities dedicated chiefly for agricultural units and make only small contributions to the small-scale industries.

Principal accounts of the State and Central Cooperative Banks are as follows:

Amount in Thousands of Rs.

	No. of Offices	No. of Members				Ownership of Capital			
		Central	Primary	Individual	Total	Govt.	Central	Primary	Individual
State	191	751	22,821	8,609	8,47,40	3,99,83	2,94,88	1,20,46	32,22
Central	985	1,239	1,74,282	1,47,298	17,07,21	3,21,13	49,55	11,77,70	1,58,85

	Ownership of Deposits				
	Total	Central	Primary	Individual Members	Individual Non-members
State	45,44,59	12,81,24	13,59,95	9,23,92	9,78,33
Central	66,87,91	1,72,41	20,77,95	19,81,13	24,56,47

	Working Capital						
	Paid-up Capital	Statutory reserve	Bad Debt reserve	Other reserves	Deposits	Borrowings total	Total
State	8,47,40	1,49,39	87,80	1,09,09	45,44,60	51,69,18	1,09,06,74
Central	7,01,10	3,90,60	1,46,05	2,53,83	66,78,16	49,46,76	1,41,16,50

	Loans Outstandings				
	Total	Co-op.	Of which Individual	over due	Bad debts
State	74,73,20	70,98,62	3,74,26	5,50,42	2,02,36
Central	100,98,91	97,37,20	3,58,98	11,88,28	1,45,67

(Source "Statistical Statements relating to the Co-operative Movement in India 1957-58 " by Reserve Bank of India).

The figures given below show the banks' (1) working capital and (2) total loans advanced (in thousands of Rupees):

	(1)	(2)	
State	1,030,674	747,320	(709,862)
Central	1,411,656	1,009,891	(973,720)

Loans were mostly given to cooperative societies, but advances to industrial cooperatives are quite negligible except for those to handloom cooperatives.

The number of existing industrial cooperatives is as follows:

Type of Industry	*No. of Cooperatives*
Handloom weaver	7,883
Palm Gur	2,442
Others	5,028
TOTAL	15,333

There are many cooperative of handloom weavers in Madras, Uttar Pradesh and Bengal, and their production is increasing.

Cooperative societies of palm gur producers are found in considerable numbers in Madras, Andhra Pradesh, while other cooperatives in the group of small-scale industries, of light industry sporting goods and furniture makers are many in Punjab, Delhi, Bombay and West Bengal.

Most of sericultural cooperatives are found in Mysore and West Bengal, while many coir producers' cooperatives are in Kerala, Madras and Orissa. Further, a considerable number of forest labourers' cooperatives and khadi producers' cooperatives have been set up in Bombay, Orissa, Andhra Pradesh and Bihar.

Since the capital of all those cooperative societies is small and the maximum amount of loans available to them is set at ten times as much as the total of paid-up share capital and reserve fund, they appear to have difficulty in doing activities on an extensive scale.

Advances made to those industrial cooperatives by Cooperative Banks are as follows:

	(In thousands of Rs.)
Handloom weavers	28,258
Handicraft	422
Small-scale Industries	490
Sericulture Coir	1,381
Khadi & Village Industry	621

—As at the end of 1957.

On the other hand, the Reserve Bank of India gives loans to co-operative Banks at an interest rate of 4·5 per cent per annum, which are lent by the latter to handloom weavers' cooperatives and others at a specially low interest rate of 2·5 per cent.

The deficit consisting of the lower interest on loans and of Co-operative Banks' expenditure is pieced out with Government subsidies. Here comes in the subsidy system for low interest loans.

Losses from loans under this system are made good up to 5 per cent of the total sum by the Government. For this, the Central Government disburses 50 per cent, the State Government 40 per cent, leaving the remainder 10 per cent for the Co-operative Bank to cover. Loans of this type amount to Rs. 13,019,000 for the year (1957-58).

In Bombay a special loss compensations system has been adopted for the loans given to industrial cooperatives as follows:

(1) In case advances by the Central Financing Agency to those cooperatives turn to be bad debts or the assets of cooperatives will be compensated by the State Government and one-third by the Central Financing Agency. (2) In the case of Weavers' Cooperative societies, the loss will be compensated by the Central Government and the State Government up to 5 per cent of the total amount of loans: 50 per cent of the loss to be compensated by the former and 40 per cent by the latter Government, and only the remaining 10 per cent left for the Central Financing Agency concerned to dispose of. (3) If the Central Financing Agency gives credit to industrial cooperatives at an interest rate specially lower than the normal rate, supplementation of the interest differences will be granted to the Agency up to the amount not exceeding 3 per cent of the interest.

As has been stated already, most of the loans advanced by Co-operative Banks go to cooperatives, but there is no doubt that the priority is given to agricultural cooperatives. The practices of Cooperative Banks in the urban districts in extending loans can be said to be considerably different from those of Cooperative Banks in other districts. Let us just refer to the Annual Report (1957-58) of the Saraswat Cooperative Bank in Bombay State. It reads in part:

> "Out of the total of 777 advances granted during the year (1957-58), as many as 473, that is to say, 60 per cent., were for the purpose of repayment of debts, sickness, domestic, marriage and education. The total amount advanced under this group was Rs. 372,805 and the

average loan per member worked out to Rs. 789. These figures are an indication of the sad plight of the economic and physical health of the middle class. But for the institutions of this type, these people would have found themselves in the hand of the private money lenders. The remaining 304 advance amounting to Rs. 2,886,416 were granted for satisfying the credit needs of the small trade and the small scale industrialist. The average amount of advances under this group amounted to Rs. 9,827.

Advances granted to small traders and industrialists were mainly for meeting their working capital needs. It would be interesting to note that the Bank has been financing the following types of small industries: Printing, pharmaceuticals, fisheries, building, bakery, glass, fountain pen, manufacture of components of air-conditioning plants and bakelite caps and so on.... ."

It has been learned that applications for loans by small-scale industries have increased since the beginning of 1959. Such a fact indicates that Cooperative Banks in suburban districts are also financing small-scale industrialists though still underdeveloped when compared with the financing for agricultural units. In order to promote financing for the industrial cooperatives, it is considered quite necessary to create a cooperative banking institution that may be called the Industrial Cooperative Bank, independent of the existing Cooperative Banks chiefly catering for agricultural industries, and to give full countenances to it. Cooperative Bank system independently of the existing cooperative bank system centering on agricultural cooperative societies and to aid them with a view to promoting the granting of advances to Industrial cooperatives in the future. For agricultural financing and industrial financing require different kinds of knowledge. Further, many non-agricultural credit cooperative societies, especially a new type of small industrial cooperatives recommended in the preceding chapter, are about to be established. Accordingly, it is no exaggeration to say that the creation and consolidation of the Industrial Cooperative Bank system in the key-point of the Government measures to be taken for the promotion of small-scale industries.

The following are major Accounts of the Primary Credit Societies·

Unit : lakh

	Loans			
	No.	Outstandings	Of which overdue	Bad debts
Agricultural	1·66·543	1·07·10·38	22·78·65	37·62
Non-Agricultural	10.430	79·32·60	6·53·96	46·12

Working Capital							
Paid-up Capital Govt.	Others	Statutory Reserve	Other Reserves	Deposits	Govt.	Borrowing Central Bank	Others
2·21·27	26·01·00	9·28·65	4·86·38	8·63·42	1·59·69	78·42·04	2·72·70
1·88	23·99·86	6·00·05	4·56·34	60·73·35	58·51	4·74·46	1·88·31

As is seen from the above figures, systematized cooperatives financing seems to have shown considerable good achievements.

In India, the definition of small-scale industries is strictly given but there are, it seems, quite a number of types of industries included in the so-called village industries and cottage industries, which may be brought under the category of small-scale industries to be organized and fostered in line with promoting the small-scale industries. Therefore, the necessity for strengthening industrial cooperatives and the necessity for the Industrial Cooperative Banks is very much keenly felt.

3. *Our Recommendations*

Although, generally speaking, commercial banks have considerably abundant funds to draw on, their funds are not observed following sufficiently into the field of smal-scale industries, for which are responsible the banks' too much cautiousness and the lack of appropriate security for loans on the part of the industrial units themselves.

For promoting financing to the small-scale industries, the enhancement of credit capacity on the part of the industries themselves, needless to say, is the prerequisite. Bearing this in mind, we have some inquiries to make about the following items:

(1) methods by which funds of commercial banks can be more easily introduced into small-scale industries,

(2) feasibilities of dividing the existing co-operative banks which are specializing in the systematic financing into the ones for agriculture and the ones for industries, and the method to consolidate the latter.

As to the Government-affiliated financial institutions, too, we are of the opinion that their business operation has much to be improved.

(I) Creation of the Credit Guarantee System

This is a system of supplementing credit for an easier financing to the small-scale industires.

Our conviction is that much can be expected of this system in a country like India, if it should be made most use of, where the financing to the small-scale industries has not yet been facilitated in spite of the existence of considerably abundant funds to be utilised. This view of ours might be supported by the fact that many Indian bankers, who talked with us, showed great interest in the system in Japan.

Principal points of our recommendation are as follows:

A. Structure

We recommend to create, in each State, what may be termed the Credit Guarantee Fund. Most of the Fund will be contributed by the State Government and the remainder by financial institutions. The contributing financial institutions will be commercial banks including the State Bank of India, and the industrial cooperative banks. Other types of financial institutions may be added according to circumstances.

In Japan, roughly 90 per cent of the aggregate of the guarantee funds is contributed by the local public entities, the remainder by the commercial and cooperative banks.

B. Business

The Fund will stand guarantee for small-scale industrial units in obtaining funds—in the forms of loans and of discounted commercial bills—from financial institutions.

C. Those Eligible for Guarantee

All business establishment falling under the official category of the small-scale industries will be entitled to have access to the system. A liberal interpretation should be given in this regard so that the village industries and such other business as handloom

industries can be covered. Cooperative societies organised by those industries will, as a matter of course, be included.

D. Maximum Limit of Guarantee

As a matter of principle, the aggregate of guarantee should be restricted within a limit certain times as large as the size of the fund. The proportion should be decided upon according to an estimated percentage of possible occurrence of bad debts. Our experiences in Japan tell us that it will be rather safe to set the limit at 10-15 times as large as the total amount of the fund.

E. Sum of Debts and Term for Guarantee

Certain limits need to be fixed for the amount of debts and for the term to be guaranteed.

Since this is for the small-scale industries whose credit capacity is very small, the sum of individual debts to be guaranteed should be small—10,000—20,000 Rupees, for instance—it will be so arranged that the benefit may be diffused among as many people as possible. The term should be short (1 year or less) and medium (2-3 years), avoiding any bad effects which may be brought about by possible deterioration of business situation of the beneficiary and low rate of turnover of the guarantee fund.

F. Guarantee Premium

Guarantee premium will be collected from the beneficiary to be appropriated for the current expenditure of the Fund.

The rate should be as low as possible because it is the extra cost for the borrower who will pay interest on loans.

It might be necessary, therefore, to cover the cost in some cases with subsidiaries from the Government.

G. Personal Surety and Material Security.

In view of the principles of the system, no personal surety or material security should be required of the beneficiary.

H. Subrogations

In the event of the debtor's total or partial failure of repayment of the loan guaranteed, subrogation will be made by the Fund for the financial institution, upon the demand of the latter made after a certain extension of time beginning the date of maturity of the loan in question. The period of grace should be as short as possible. In

possible, the Fund will be entitled to receive payment of insurance case the recovering of unrepaid part of the loan by the Fund is immoney within a certain limit of sum insured by the Credit Insurance Fund, as will be further mentioned below.

(II) Creation of the Credit Insurance System

We recommend to create this system to insure the loans guaranteed by the Credit Guarantee Fund, whose creation in each State has been recommended, aiming in fine at encouraging banking institutions further to give credit more readily to the small-scale industries.

A. Structure

We recommend to establish as central organ a Credit Insurance Fund, to have it run the system. The fund will be contributed wholly by the Central Government.

B. Business

The Credit Insurance Fund will enter into insurance contract with the Credit Guarantee Fund in each State, upon application by the latter for insurance of the loan guaranteed, insurance money being payable upon the occurrence of an insurance accident.

C. Beneficiaries of the Credit Insurance

No other beneficiary than the Credit Guarantee Fund in each State should be entitled to the credit insurance. It is not advisable for the Credit Insurance Fund to have direct dealings with the financial institutions as the other party to the insurance contract thereby to insure suretyship made by them for the small-scale industrial units.

D. Maximum Sum of Total Insurance

The aggregate of insurance amount should be decided upon by taking collectively into consideration such factors as the size of resources of the Fund, expected sum of guarantees to be made by the State Credit Guarantee Funds and an estimated rate of occurrence of insurance accidents.

E. Details of Insurance Contract

(a) Insurance Money

The total value of insurance should be set for every half year or one year by consultations between the two contracting parties

namely, the Credit Guarantee Fund and the Credit Insurance Fund. In this case, a blanket policy should be taken out with a view toward dispersing the risk, lowering the premiums and simplifying procedures. Individual policies should not be recognized because, they leave room for involvement with bad loans or bad guarantee.

(b) Coverage

How much percentage of the insurance value should be covered by the insured amount? This is an important point, along with the amount of premium, from the viewpoint of insurance economy. It is considered that 70-90 per cent is an appropriate percentage to start with. It is not advisable to cover 100 per cent of the insurance value since the Funds will be led to take an easy-going attitude toward guaranteeing and this may eventually undermine the nation's insurance economy.

(c) Premium

The premium should be held down to the lowest possible rate although it should be worked out rationally by taking into consideration the risk as well as the percentage of insurance to the insurance value. The premium should never be added to the guarantee charge but should be paid out of the expense account of each credit guarantee fund.

(d) Payment of Insurance Money

As soon as the credit guarantee fund performs obligation by way of subrogation, it succeeds to the creditor's rights and makes efforts to collect the amount subrogated. In the event of failure to collect the amount, in full or in part, within a certain period, the credit guarantee applies to the credit insurance fund for payment of the insurance money.

Although from an ideal point of view the credit guarantee fund and the credit insurance fund should be organized newly as two separate organs, it is desirable that their functions should be performed at first by the existing agencies in order to ensure smooth operation. The function of the former may be appropriately carried out by the State Financial Corporation of each state and that of the latter by the Reserve Bank of India. However, it is necessary to reinforce the structure of the State Financial Corporation.

(III) Establishment of Financial System for Industrial Co-operatives

It is obvious that the cooperative movement in India has been making steady progress year after year with lofty ideal and under an advanced system. It is also indisputable that the cooperation

has been accentuated on agriculture. Financing by co-operative banks, therefore, has centred on the agricultural industries and businesses other than small-scale industries, and scarcely anything worth mentioning is to be seen for the industrial co-operative except for the handlooom industry. Therefore, it is believed that one of the most urgent tasks for Indian economy is to pave the way for facilitating the financing of the existing industrial cooperatives and many such cooperations to be newly organized in the future.

To this end, we recommend that the existing State Co-operative Bank (or Apex Co-operative Bank) be divided in two: (1) State Bank for Industrial Co-operatives, and (2) State Bank for Agricultural Co-operatives, in order to take fullest advantage of their respective characteristics.

In order to make the start most efficient and smooth, the proposed Bank is advised to take over relevant businesses for the industrial co-operatives and necessary personnel from the existing State Co-operative Bank.

Similar division of the Central Co-operative Banks operating at district level will become necessary. (There are State Co-operative Banks in a few States,*but careful examination is required in identifying them as the proposed ones).

In some cases where quick reorganization is difficult, such temporary measures may be taken within the State Co-operative Bank in question as seperating pertinent accounts and thus conducting *de facto* seperated business operation, without seeking immediate structural seperation, but waiting for a favourable time to come.

The numerous terminal societies, such as the Primary Credit Society, Urban Bank and Consumers Cooperative, may be classified into the two groups of agriculture and industry according to the nature of their present business, and their names may be changed accordingly. In cases where it is difficult to separate accounts in the Central Cooperative Banks, it is advisable to utilize for agencies the branch network of the State Bank of India and, in industrial areas, to set up new branches.

The State Bank for Industrial Cooperatives will perform the function to furnish necessary short-term and long-term funds to the industrial cooperatives through the bank's head and branch offices as well as its agents and affiliated organs. As a rule, the financial resources of the bank will consist of invested capital, deposits, borrowed money and funds procured by floatation of

*Bombay, Mysore, Uttar Pradesh

bonds, but when the interest is required to be lowered, there may be a case where the central or local government invests in the bank.

The bank's business policy and its detailed regulations concerning loans, deposits and securities should be determined in a flexible manner by taking into consideration the business of other financing institutions as well as the expected degree of utility to industrial cooperatives.

Most important for the bank is to guard itself against assuming a beaurocratic attitude and to employ the service of specialists in order to make accurate and speedy decisions on loans.

Under the current situation, private financial institutions are not lending money to small scale industries satisfactorily, and it follows necessarily that the Governmental financial organs are playing an important role in this field. But they cannot be said to have made satisfactory achievements so far, and we believe that there is much room for improvement. Our observations in this connection are summed up as follows.

A. Financing under State Aid to Industries Act: As has been stated in Paragraph 2 of the preceding Chapter, the financing business under this Act, it is considered, can be conducted far more efficiently and impartially if the business is entrusted to banking institutions with technical knowledge and experience. The banking institution suitable for this purpose seems to be the State Financial Corporation (known as S.F.C.), which is a Government financial agency and likewise deals in long-term loans.

However, since the capital fund of the Corporation is national property, it would be improper to think that S.F.C. can handle the fund freely, and it is conversely required to take business measures reflecting to some extent the policy of the Government. Accordingly, it is considered proper that the decision in the matter of financing concerning, for instance, the loanee, the amount and term of a loan, etc. will be left to the Working Committee with the Director of each State participating. On the other hand, S.F.C. will be charged with the task of conducting the entire procedural business and actual transactions, such as receipt and examination of applications, delivery of funds, safe keeping of securities, withdrawal of principals, collection of interests, etc.

Inasmuch as S.F.C. will thus be required to carry on financing business under the State Aid to Industries Act in addition to the said business concerning the Credit Guarantee Fund, it is necessary to expand and improve its personnel and organization. Anyway, it is required to increase staff members with expert knowledge of financing and those with technical knowledge concerning industrial fields.

It is considered appropriate that officials of each State will do away with the present practice of serving concurrently as officials of S.F.C., leaving its business operation to experts exclusively employed by the Corporation, and exercise from the outside adequate supervision over it.

B. It is necessary to review the financial set-up so as to enable the State Bank of India and State Financial Corporation to finance small-scale industries on much more liberal terms than those of non-government banking institutions. According to our recommendations, since loans to be made by the State Bank of India will be guaranteed by the Credit Guarantee Fund, it is expected that the Bank will become the financing centre for small-scale industries, by using its many branch offices and giving full play to its sufficient funds.

As has been explained already, State Financial Corporations are required to expand their personnel and organization and further, their financing attitude at least should be more liberal than that of banking institutions required under the State Aid to Industries Act. Since it may be impracticable to extend its network of branch offices, it may be best for the present to utilize as its agents a large number of branch offices of the State Bank of India.

C. In view of the existing situation of the financing system in India, there are questions demanding the planning and preparation of preliminary investigations in some fields out of consideration for the necessity in the future. They are subscription for part of stocks, underwriting of debentures and securities, instalment financing, advances for export, etc.

The immediate commencement of the above investigations is not demanded. Furthermore, it is doubtful whether it is proper for government agencies to conduct these investigations, for many items mentioned above concern large-scale enterprises. Any way, it is considered necessary to plan or prepare these investigations to meet the necessity in the future.

CHAPTER V

TECHNICAL FACILITIES

I. Bird's-Eye View of Indian Industries

(1) *Basic Industries under Five-Year Programme*

India is now pushing the five-year plan which puts special emphasis on the development of the iron-steel industry. The programme, the second in a series, is expected to boost India's iron-steel production to a yearly total of 6 million tons when the programme draws to its end.

Iron-steel production in India now totals only 1,400,000 tons a year, necessitating a yearly import from abroad of about 1 million tons of the product. Cries for more supplies of iron-steel products, therefore, have been raised by various circles.

To meet such a mounting demand for steel, three mills each capable of producing 1 million tons of steel ingot are now being built with the technical assistance of Britain, West Germany and the Soviet Union.

Present steel mills, such as the Tata, Indian Iron and Iron Steel companies, are planning to expand their production facilities.

Thus, in 1966 when the projected third five-year programme will wind up, iron-steel production in India is estimated to top the 10 million-ton level a year.

These iron-steel mills use iron ore and coal which are obtained in western Bengal, Orissa and Bihar States. In future, Calcutta is expected to offer a site for the heavy industries, the machine manufacturing and other industries.

India's power generating capacity was 2 million KW before the first five-year programme. This capacity, however, was boosted by 1,100,000 KW under the programme. The second five-year programme which is to get under way in 1961 is expected to whip up the capacity to 7 million KW at a click and enable the country to lay 35,000 miles of high-voltage power lines.

At present, power plants are under construction at 12 different places, including Andhra Pradesh, Assam and Bihar States.

Coal production in India presently totals 45 million tons a year. It is believed that, of the country's total coal deposits of some 2,000 million tons, 60 per cent of deposit can be used as metallurgical coal.

With the development of the iron-steel industry, coal-producing facilities, especially dressing plants, are expected to be made up-to-date.

Meanwhile, cement production aggregated 5,600,000 tons in 1957. The production is expected to be upped, however, to 9,300,000 tons in the goal year of the contemplated third five-year programme.

The domestic demand for ammonium sulphate is estimated at 700,000 tons at present. India, however, has a yearly production capacity of 360,000 tons at the state-owned Sindri fertilizer plant.

Therefore, India must import the balance amount for demand. India, however, will be requiring 1,900,000 tons of ammonium sulphate and some 380,000 tons of other nitrogenous fertilizer in December, 1961 and 5 million and 1 million tons of these fertilizer in the goal year of the third five-year programme.

(2) *Raw and Subsidiary Materials*

Raw and subsidiary materials are exceedingly short of demand in India. In every state we visited, questions were asked on how small enterprises in Japan were supplied with such materials.

Materials specially running short were pig iron, rolled steel, coal and cokes. Also short of demand were materials which India could not turn out and had to import from abroad, such as chemicals and non-ferrous metals.

The shortage of these materials appeared to be considerably serious. The basic solution to this problem is to open up these resources by enforcing a series of development programmes similar to the current five-year programme. For assuring their immediate supply, however, measures such as are introduced in Chapter VI will have to be adopted.

Questions were also raised at various places on how to promote small enterprises utilizing mineral and agricultural resources which were not fully developed in that country. In Assam and Kashmir States, special efforts had been exerted for the development of industries operating on natural resources.

(3) *Correlated Industries*

No manufacturing industries can prosper without a balanced development of related industries. However, lack of harmony was noted among such industries in some places.

Such a trend may be unavoidable in the present phase of industrial development in India, but it appeared, at the same time, that

efforts were not sufficient to acquire such balance in various industries of industrial estates, especially iron casting, forging and welding.

For example, there are many plants to venture upon the wire-drawing industry. Regrettable enough, however, such an industry cannot be established as yet because no materials or tools indispensable for the industry, such as tungsten carbide and diamond dies, are available. There is even no plant that can grind dies.

The press button manufacturing industry has been established at many places, but production still remains on quite a poor level because of lack of supply of high-quality brass sheets.

In India, machine manufacturing is the industry that absorbs most the working population. The country still needs a large quantity of industrial machines, prototype machines and tools. The fundamental techniques for machinery industry are casting, forging and welding iron and metal surface treatment. It appeared, however, that no adequate technical guidance was given, nor was proper training of technicians made for the development of these industries.

(4) *Ancillary Units*

The development of ancillary plants that cluster around big industries is one of the primary objects of the Indian Government's policy on small Industry. Efforts have been made in this direction in each estate.

However, the development of ancillary plants still leaves much to be desired because big industries in India generally possess facilities that can produce all goods they require. Moreover, the technical standard of big industries far exceeds that of small industries.

In some states, the development of ancillary firms was being sought with the aid of Government agencies concerned, such as NSIC and Small Industries Service Institute (SISI). In West Bengal, for example, some 30 ancillary firms had been set up for the bicycle, some 40 for the electric fan and more for the sewing machine manufacturing industries.

(5) *Local Industries*

Industrial products in India seem to be lacking in local colour with the exception of handiworks and textile goods. Production of goods full of local colour was not still developed. Even the policy at S.I.S.I. and Industrial estate, contained no such course as is aimed at fostering an industry with any special feature.

(6) *Industrial Interest*

Industries in India generally appeared to be in the early stage of development. Our opinions and advice were sought in not a few states and most of them were for inducing technical know-how from Japan. Thus, it seemed that India was seeking to develop industries through the import of plants plus techniques that would operate them.

Opinions were also sought on the invitation of technicians from Japan and dispatching trainees to it for receiving training. Such an attitude of the Indians, it was assumed, was indicative of their earnest intention to develop industries of their own country.

2. Measures for Development of Small Industries—Their Technical Facilities and Some Suggestions

The Government's five-year programmes enacted heretofore appeared to have failed in promoting small industries since they were intended primarily for the development of big industries. Recently, however, the need to promote small business having been recognized as a means of establishing the basis for national economy, a set of measures for improving small industries were incorporated into the second five-year programme. These measures call for the self-supply of consumer goods, settlement of employment problems and development of small industries linked with big ones.

Various administrative Organisations or Agencies have been set up for translating these measures into action but no appreciable results have been obtained as only three or four years have elapsed since their inception.

The second five-year programme now in force calls for the disbursement of 556 million rupees (originally 610 million rupees) for aiding small industries. The fund was prepared for the purpose of establishing industrial estates, technical education and as loans for the import of machinery by small enterprises.

In the category of small industries as defined by the Government of India come power-using enterprises with employees totalling 50 or less and non-power-using enterprises with employees numbering up to 100.

A number of problems now confront small industries in India. They include lack of funds and raw materials, low techniques, inadequate sales activities and market surveys as well as lack of proper industrial sites.

To solve these problems, the Government of India has adopted a series of measures, including the establishment of various facilities for improvement of the country's industrial standard.

The following is a list of these facilities and their activities:—

(1) *Small Industries Service Institute (SISI) & Extension Centre*

Main activities of this organisation are (1) technical guidance, (2) technical training, (3) acceptance of designs, (4) managing training, (5) publication of industrial schemes, and (6) operation of mobile working vans.

SISI offices have been established at various states and the district of Delhi with a view to helping small enterprises in improving their techniques and streamlining their business. These offices have on their payrolls experts on various branches of industry and respond to technical and other consultations by small industries, besides accepting such consultations at their offices, meet the small industries' requirements also by making a round of visits to their offices or plants. SISI, according to official records, gave its advice on 43,000 cases of consultations at its office and on 60,000 cases at various plants during the past three years.

Another main function of the institute is the publication of industrial schemes—a guidebook of industrial activities for the beginners in small industry. They provide detailed information on the efficient operation of various industries, such as raw and subsidiary materials required, the scale of plants and other facilities and the number of employees as well as settlement of accounts.

The institute has complied industrial schemes for 340 different kinds of industries, including bolt and nut, barbed wire, leather and hosiery goods manufacturing as well as iron casting and forging, up to the present. It is said that, of these industries listed above, 127 have been actually inaugurated.

The guidebooks are distributed free of charge at the request of industrialists.

Besides these activities, mobile working vans—model machineries and plants on vehicles which make a round of visits to various places—are operated by some SISI offices and are helping the promotion of technical knowledge and interest. Such vans presently operated total 47.

Lecture meetings for technical and management education are also sponsored by the institutes.

In areas where no such institutes are available, industrial extension centres have been set up to aid local businessmen. Such centres have already started functioning in 14 places, while preparations for inaugurating them are being made at 50 other places.

These institutes and centres are being used by an increasing number of businessmen and, accordingly, it can be said the creation of such organizations was a success.

The SISI in Ludhiana, (Punjab State), reportedly receive an average of 600 cases of consultation a month. Details of activities of the West Bengal SISI are given below:

Technical Services Rendered to small Units

		1956-57	1957-58	1958-59
1.	Cases of Technical Service Rendered	1,130	1,485	1,781
2.	Cases of Information Supplied for Starting New Industries	335	603	871
3.	Miscellaneous Assistance, Information	1,515	2,513	3,149
4.	Units Visited	3,560	4,434	4,629
5.	Designs and Drawings Prepared	52	91	114
6.	Persons to Whom They Were Distributed	120	470	279
7.	Technical Bulletins Prepared	6	4	5
8.	Schemes Prepared			
	(*a*) Model Schemes	15	2	16
	(*b*) General Schemes for State Government, Ministry of R. R. and Other Parties	75	87	179
	(*c*) Parties to Whom They Were Distributed	1,025	1,056	1,193
	Mobile Workshops			
1.	Vans Sent on Tour	4	4	6
2.	Centres Visited	29	294	136
3.	Demonstrations Arranged	213	1,212	406
4.	Artisans Given Instruction	782	3,298	6,832
5.	Visitors Attending Demonstrations	7,300	96,400	1,03,632
	Tool Van			
1.	Demonstrations Arranged	..	...	26
2.	Persons Attending Demonstrations	..	..	486
3.	Jobs Undertaken	..	..	130
4.	Small Units Assisted	..	..	34

Activities of the Andhra State SISI follow:

	1956	1957	1958	1959 (Jan. to July)
1. Parties to Whom Technical Assistance Rendered	119	175	254	143
2. Parties to Whom Assistance Rendered for Starting Business	45	104	150	163
3. Parties to whom Other Assistance Rendered	128	414	459	397
4. Units Visited	226	463	623	394
5. Parties Visiting the Institute for Assistance	209	450	700	500

From experiences gained in Japan, it is difficult to operate a research and advisory organ for industrial circles. Should the organisation fail to render proper services, businessmen would cease to depend upon it.

Generally speaking, such an organization usually tries to induce a new technical know-how, while industries do not favour a technical reform.

SISI's must always have on hand up-to-date industrial techniques for the benefit of industrial circles. Efforts should be made, therefore, to improve and expand their research facilities, which are by no means adequate at present, and strengthen their inspection systems to secure the supply by industries of goods of best possible quality.

It is noted in this connection that a marked technical reform is taking place in small industrial circles. For instance, high-tensile cast iron is now being produced instead of ordinary cast iron and both the shell-mould and the so-called CO 2 process have come to be employed for up-to-date casting.

In the field of electric plating, a bright electric plating method which omits the grinding process from the conventional system is becoming popular.

The technical innovation, however, should be sought more for casting, forging and welding which from the basis of the machinery industry.

It should be remembered in this connection that not all SISI's should equip themselves with similar service facilities. SISI's should study industrial conditions of the areas to which they belong and acquire facilities that will really meet their demand, since acquisition of similar facilities in each state will merely prove an economic loss.

Buildings housing SISI's were generally old and superannuated and were not considered proper for carrying out effective research and experiments. They should be either rebuilt or renovated.

We entertained doubt about whether SISI's have competent and experienced technicians on their payrolls, although we could obtain no detailed information on the matter. If such technicians are not available at home, it is hoped that they will be invited from abroad.

All these measures suggested here need budgetary guarantee of the Government. The last thing that must be recommended is that more SISI's should be up, at least in all leading industrial centres, to help develop small industries. We are not qualified to suggest any specific number of SISI's to be established anew, but we venture to say that at least 100 more would be needed, judging from the conditions of industrial estates to which we will presently refer.

Also to be increased and reinforced for industrial development are the extension centres and common facility shops. It should be remembered, however, their common objective is to train technicians and that they must not oppress industries in any way. Some institutes were engaged in the production of various goods on a considerably large scale, but it is advisable that steps should be taken to shift such production facilities under private management.

(2) *Training Facilities*

The Government of India appeared to be making an earnest study on how to train technicians for future industrial development. The method of training adopted in India differed greatly from the Japanese system under which graduates of various schools receive training at plants for which they work. The Indian system, on the other hand, appeared to be aiming at giving fundamental vocational education. It is regrettable, therefore, that we can not make any recommendation on the matter.

It is said, however, that there are many such training facilities attached to states and SISI's and are raising artisans for various lines of industry, such as blacksmith, carpentry, glass and enamel.

The period of training ranging from six months to a year is comparatively short. A survey shows that a total of 4,240 artisans have been turned out by these training facilities, while 567 others are still receiving training.

This leads us to an estimate that the training of technicians is being conducted on a considerably large scale. But complaints were heard in some states that not all technicians trained at such

facilities could land jobs, while in others they failed to qualify for actual work.

It is difficult even in a country like Japan to train useful technicians in a short period of time. Able technicians can be obtained only after years of actual training at factories and plants.

Fortunately, there are a number of big factories in India and, therefore, it can be recommended that actual training be given to qualified technicians at such factories to meet future demand for such experts or to make them play the role of foremen at ancillary plants of big industries.

Here attention should be directed to the fact that there is a limit for employment for handicraftsmen, blacksmiths, carpentry and footwear makers, etc. Therefore, authorities should see to it that training is limited to such experts as will be absorbed completely into local industries. It is also desirable that as many technicians as possible will be trained for the anticipated development of the machinery industry in future.

Even in such a case, however, basic education must never be neglected. The compulsory educational system must be improved, technical training added to the curriculums of primary and secondary schools and, moreover, technical high schools instituted.

(3) *Development of Ancillary Unit*

The development of small industries hinges on that of ancillary plants depending on big industries. It is believed that a glance at the ancillary unit system in Japan will help to develop small industries in India.

Small industries in Japan generally have a long history of about 70 to 80 years. They have come through various ups and downs and have succeeded in laying considerably solid foundations, both technically and financially. Many of the present big industries were once small enterprises with a flimsy economic background.

Production of machinery and plants, including automobiles, ships and rolling stock, require thousands of parts and accessories. These parts and accessories are produced separately by factories majoring in the production of such industrial products. In the case of Japan, this formula is proving specially beneficial as it serves to cut down production cost.

In India, however, such an industrial formula has not developed fully because of a big gap between the scales of industrial facilities, technical standards and wages of large and small industries

is little. Moreover, the small units cannot fulfil the demand of parts from large ones. Generally speaking, the formula of industrial specialization promises production on a piece-work basis and maintenance of high quality as well as reduction of indirect expenses.

Big industries engaging in the production of automobiles, ships and machinery have a bunch of ancillary plants of their own. Such a trend is seen not only in Japan but also in various other countries, including the United States, Britain and Germany. It is not seldom that the parent company helps its ancillary plants in many ways, not to mention technical and financial assistance. Ancillary plants on the other hand, must deliver their products to the parent company punctually by the appointed date and receive rigid inspection for the quality of their products.

The most distinctive feature of ancillary firms is to continue steady industrial activities by depending on their parent firms. The following table shows how far ancillary plants in Japan depend on their parent companies:

Rate of Dependence on Parent Firms

	No. of Ancillary Units	0	1—30%	31—50%	51—70%	71—99%	100%	Unknown
Metal Goods Mfg. Industry	246	10	56	34	32	55	63	6
	100·0%	4·1	22·8	13·8	8·9	22·3	25·6	2·4
Machinery	372	9	59	36	117	60	91	..
	100·0%	2·4	15·9	9·7	31·5	16·1	24·5	
Machine Parts	822	38	193	132	93	139	130	97
	100·0	4·6	23·5	16·1	11·3	16·9	15·8	11·8
Electric Machinery, Tools	741	4	117	113	80	167	260	..
	100·0	0·5	15·8	15·2	10·8	22·5	35·1	
Automobiles, Accessories	275	1	54	57	63	66	32	2
	100·0	0·4	19·6	20·7	22·9	24·0	11·6	0·7
Shipbuilding, Repairing	291	3	24	59	60	43	102	..
	100·0	1·0	8·2	20·3	20·6	14·8	35·1	..
Other Transportation Equipment	304	11	76	70	71	46	17	13
	100·0	3·6	25·0	23·0	23·4	15·1	5·6	4·3
Precision Machinery, Tools	478	2	123	112	122	63	56	..
	100·0	0·4	25·7	23·4	25·5	13·2	11·7	
Others	346	5	65	54	62	64	87	9
	100·0	1·4	18·8	15·6	17·9	18·5	25·1	2·6
GRAND TOTAL	3,875	83	767	667	690	703	838	127
	100·0	2·1	19·8	17·2	17·8	18·2	21·6	3·3

Among the ancillary plants surveyed, those depending on their parent companies to the extent of 100 per cent accounted for 22. per cent and those which did not only 2 per cent.

An ancillary firm is not always linked to only one big industry; it often depends simultaneously on a number of big industries. In some cases, more than two such firms are found to be depending upon one another through reciprocal supply of products.

In Japan, almost all small-scale foundries, forging and welding plants as well as heat treatment, surface processing and repair plants operate as ancillary plants. It can be estimated, therefore, that many of the industries included in the above table were linked to big industries other than those surveyed, showing higher rates of dependence.

Industrywise, the rates of dependence on big industries exceeded 50 per cent for the machinery and electrical machine and appliance manufacturing industries and shipbuilding and ship repairing, while those for the machine parts and transporatation equipment industries were relatively low.

The following table indicates the number of workers employed by ancillary plants in various branches of industry:

Workers Employed by Ancillary Units

	No. of Firms Surveyed	Less than 10 Persons	11—50	51—100	101—200	201—300	Over 301	Unknown
Metal Goods Mfg. Industry	247	67	142	25	9	2	2	..
	100·0%	27·1	57·4	10·1	3·6	0·8	0·8	
Machinery	372	118	201	31	22	..	..	..
	100·0%	31·6	53·9	8·3	5·9			
Machine Parts	823	274	398	100	26	12	13	..
	100·0%	33·2	48·2	12·1	3·1	1·5	1·6	
Electric Machinery, Tools	742	106	436	144	32	17	7	..
	100·0%	14·2	58·4	19·3	4·3	2·3	0·9	
Automobiles, Accessories	277	38	128	69	26	9	5	2
	100·0%	13·7	46·2	24·9	9·4	3·2	1·8	0·7
Shipbuilding, Repairing	291	21	159	63	38	4	6	..
	100·0%	7·2	54·6	21·6	13·0	1·4	2·1	
Other Transportation Equipment	306	77	179	37	8	3	2	..
	100·0%	25·2	58·5	12·1	2·6	1·0	0·7	
Precision Machinery, Tools	478	121	248	79	20	8	2	..
	100·0%	25·3	51·9	16·5	4·2	1·7	0·4	
Others	347	110	163	48	18	22	...	6
	100·0%	31·7	47·0	13·8	5·2	0·6		1·7
GRAND TOTAL	3,883	932	2,054	596	199	57	37	3
	100·0%	24·0	52·9	15·3	5·1	1·5	1·5	1·0

Of the ancillary plants surveyed, those with 11 to 50 workers each topped the list with 53 per cent of the total, followed by those with workers less than 10 each with 24 per cent, those with 51 to 100 each with 15 per cent and those with 101 to 200 each with 5 per cent. This means that factories with workers totalling less than 100 each accounted for 92 per cent of the total.

Parent companies offering assistance to their ancillary units are tabulated below:

Parent Firms Offering Direct Assistance to their Ancillary Plants

Kind of Industries	No. of Firms	Guidance			Equipment	
		Technical	Administrative	Office	Facilities Plant	Leased Machinery
Metal . . .	13	6	5	..	3	3
Industrial Machinery	19	16	1	1	5	11
Transportation Equipment. .	40	30	9	6	11	15
Electric Power .	31	27	13	1	6	18
Precision Machines, Tools . .	12	5	4			1
Others . .	22	9	13	4	4	5
TOTAL .	137	93	45	11	29	53

In the phase of technical assistance, the electric power industry led the list with 87 per cent (27/31), followed by the industrial machinery manufacturing industry with 84 per cent (16/19) and the transportation equipment manufacturing industry with 75 per cent (30/40).

The table indicates that the offering of technical aid to ancillary firms is a matter of no small importance for parent firms since such step has a direct bearing on the maintenance of quality of their products. It also makes it clear that assembling plants are receiving more assistance than others.

These lead us to a conclusion that in India, too, big industries with a sufficient number of able technicians should extend adequate technical aid to build up the ancillary firms with a view to improving the industrial standard of the whole country. Otherwise, the technical imbalance between large and small industries would continue to exist.

Since some of the big machinery plants in India are operated by the Government, it seems possible to seek the development of the ancillary units under an overall government programme. Specifically, it is advisable that the Government, in establishing new or expanding old plants, should designate the types of machine parts or other goods to be ordered from their ancillary plants and should accommodate loans to their ancillary plants, hire or purchase machinery necessary for their production for them or extend technical aid through SISI's.

Such action, if taken after completion of the projected plants, might result in duplicate investments, but no such trouble would occur if it was taken earlier, that is, from the time when the new plant construction schedule was drawn up. In the case of private projects, the principle is the same as in the case of former, but the Government cannot force it on the latter. Therefore, mutual collaboration between both will be needed.

(4) *Promotion of Local Industries and Development of new Industries*

Local industries are generally subject to their environments. They manufacture, in many cases, goods from materials produced at places to which they belong and are influenced by transportation, communication and other conditions surrounding them. Sometimes, enterprises of a similar category concentrate at one place and seek prosperity through mutual cooperation. In India, however, such cases are relatively scarce.

Industrial estates generally have no conspicuous characteristics worth mentioning. Industries, it is believed, should assume local characteristics, regardless of what line of industry they belong to. If industries produce goods which really have characteristics peculiar to the areas they belong to, their products would be evaluated highly as specialities of the areas and would find their market with case. Main industries which can be developed as local industries are bicycles, power-assisted bicycles, wooden and bamboo wares, cutlery, cast iron, bell metal, firm implements, chinaware, leather goods, precision machinery and sundries.

Requests were made to our mission to recommend industries that would prove successful as small business. We cannot make a satisfactory reply to such a question, because we do not have enough

information on market conditions in India, but we believe the industries listed below will do:

Installation of the Following Plants is recommendable

Sl. No.	Main division	Sub-division with reference to plant	Remarks
1	Textile . . .	1. Shoe laces, lamp wicks manufacturing plant.	Braiding machinery.
		2. Ribbons, Advertising labels on hosiery goods manufacturing plant.	Ribbon loom etc.
		3. Advertising tape manufacturing plant.	Packing tape.
		4. Rope Manufacturing plant.	Jute, cotton ropes or threads.
2	Chemical . . .	1. Hard board, masonite board Phenolic plant.	Kneader, hydraulic press etc.
		2. P.V.C. or Polyethylene coating on copper wires.	Extruder, domestic cables.
		3. Asbestos packing manufacturing plant.	Used in joints of steam & gas pipes.
		4. Clinical thermometer manufacturing plant.	
		5. Celluloid, P.V.C. Polyethylene sheet manufacturing plant.	Mixer, calenderirg machine etc.
		6. Electro.-plating plant for machines and cycle parts.	
3	Electrical . . .	1. Decoration (X'mas tree) bulbs manufacturing plant.	A.C. V. 220.
		2. Enamel wire manufacturing plant.	Used in motor winding.
		3. Insulating tape manufacturing plant.	Black tape, Phenol P.V.C. tape etc.
4	Paper & Pulp & Wood	1. Cardboard and wrapping plant.	From rice and wheat, straw or sugar-cane baggages. (3 ton/ 24 hours).
		2. Corrugated board manufacturing plant.	For packing.
		3. Paper waxing plant.	For packing bread, biscuits, etc.
		4. Sipping straw.	
		5. Glassine paper manufacturing plant.	For packing.
		6. Cardboard box manufacturing plant.	For packing.
		7. Plywood manufacturing plant.	
5	Wire products	1. Wire drawing plant.	
		2. Curtain spiral rod manufacturing machine.	

Sl. No.	Main division	Sub-division with reference to plant	Remarks
		3. Springs manufacturing plant.	
		4. Sewing needle manufacturing plant.	
		5. Hosiery needle manufacturing plant.	
		6. Stitching needle manufacturing plant.	
6	Metal products . .	1. Umbrella skeleton manufacturing plant.	
		2. Wrist watch flexible strap manufacturing plant.	
		3. Press (snap) button manufacturing plant.	
		4. Cans and tins manufacturing plant.	
		5. Bolts, nuts and bifurcated rivets manufacturing plant.	
		6. Razor blade manufacturing plant.	
		7. Flexible tube manufacturing plant.	
		8. Injection needle manufacturing plant.	
		9. Zip fastner manufacturing plant.	
7	Scrap Melting Foundry and forging.	1. Spun pipe manufacturing plant.	
		2. One or two ton scrap melting plant.	
		3. Malleable casting plant.	20-30 tons/month for elbow chase and bicycle parts.
		4. Steel foundry plant.	
		5. Medium forging shop.	Forged parts 1 to 2 kgs. for cycle motor and railways.
		6. Medium foundry shop.	3 tons per day.
8	Food	1. Fruit canning plant.	
		2. Biscuit manufacturing plant.	
		3. Cheese manufacturing plant.	
9	Bicycle & Motor Parts .	1. Cycle mudguard manufacturing plant.	200 pairs per day.
		2. Cycle spokes manufacturing plant.	100 gross per day.
		3. Crank wheel. crank shaft, whee hub manufacturing plant.	20 pieces/day.
		4. Automobile rediator manufacturing plant.	20 pieces/day.

Sl. No.	Main division	Sub-division with reference to plant	Remarks
		5. Piston ring manufacturing plant.	For automobile.
		6. Cycle or automobile valve manufacturing plant.	
10	Rubber . . .	1. Contraceptives manufacturing plant.	
		2. Cycle tyres and tubes manufacturing plant.	200 pairs/day.
11	Ceramics & Glass .	1. Refractory bricks manufacturing plant.	
		2. Ampoules and bottles manufacturing plant.	
		3. Sanitary ware manufacturing plant.	
		4. Electrical insulator manufacturing plant.	
12	Miscellaneous . .	1. Tin printing plant.	
		2 Die sinking and die making plant.	
		3. Match box manufacturing plant.	
		4. Wire mesh manufacturing plant.	
		5. Conduit pipe manufacturing plant.	
13	Shop	1. Model repairs and work shop.	
		2. Model paint shop.	
		3. Model dry cleaning and laundry shop.	

India having a big domestic market, any industry, we believe, can enjoy prosperity, if only it supplies high quality products.

(5) *Quality Control*

Many questions were posed also about methods of quality control.

To maintain high quality of industrial products is a matter of serious concern of industries seeking to expand their markets both at home and abroad. Enterprises which form an ancillary unit of a big industry must also pay attention to this problem.

Establishment of Industrial Standards

In India, too, industrial standards, the so called I.S.I., are being established. Such standards, however, are not being fully utilized because no rich variety of raw materials is available.

For an ancillary unit the parent firm which forms its core should prepare industrial standards that will apply to all of its members.

Besides such standards, each industrial plant needs a set of standards for obtaining of good-quality materials.

(b) Work Standards

Work standards must be established even at small plants for the purpose of keeping the quality of their products uniform. Such a system is indispendable especially for such basic industries as iron casting, forging and welding as well as surface processing. In the machine manufacturing industry, for example, standards must be set even for the speed of revolution of the lathe spindle.

(c) Process Control

The conveyor system should be adopted through reinforcement of the inspection system. Inspection of products should be conducted from all conceivable angles.

Complete inspection facilities should be attached to Institutes to check the quality of products of the plants which cannot afford to establish such facilities.

(d) Marking System

It is advisable to create a quality marking system, which will grade the quality of industrial products, because such a method is expected to stir up an interest in supplying good-quality products.

Such a system has already been established for certain products in Uttar Pradesh and a few other states of India.

It is believed proper, however, that the marking system should be inaugurated under the direct leadership of the central government and not by state authorities.

Inspection of export goods should be carried out by a states organization to assure shipments of choice articles. Specifically, an export goods inspection institute should be set up for this purpose.

It is hoped in this connection that the central government will take steps to commend and encourage makers turning out good-quality products for export.

(6) *Instruction of Techniques and Technicians and Dispatch of Trainees*

During our visit to various Indian states, a flood of questions were posed as to how far Japan would help India technically. We could not give any satisfactory answer to such questions. Since economic cooperation was not the primary purpose of mission, but we knew from these questions what small scale industrialist in India were thinking about the problem of techniques.

Such questions were asked mostly by businessmen who were desirous of concluding technical tie-up contracts with Japan.

In India, the five-year plan is now being enforced. Induction of foreign techniques should be sought naturally under this programme. Industries seeking to induce the foreign technical know-how should first consult NSIC's or SISI's and then to map out a concrete tie-up programme. It is to be hoped, however, that no such action will be taken at an early date. Our mission has found that the technical standard of factories has improved considerably at various states, thus enabling production of machinery to be carried on domestically to an appreciable extent. Moreover, with the establishment of technical training centres in India through the cooperation of various foreign countries, production of the so-called prototype machines and tools will become possible.

As for technical cooperation between Japan and India, it seems that the tie-up, if pushed on a private industrial basis, that is, through negotiations among private individuals, will not make much headway because the sending of skilled experts to India will prove a burden to small industrialists of Japan who, like their counterparts in India, are not well off. Such step, it is believed, is not an easy thing even for big industries, as is generally considered in India.

About complaints filed by the Indian industrial circles that no satisfactory answers are received generally with respect to technical consultations by individuals, we should say it is largely due to the language barrier. Small industries in Japan as a whole, not to mention associations of various kinds, have no language experts who can answer such questions. For requests of individuals to make an estimate of industrial projects, no adequate answers can be made either because of lack of established conditions of technical tie-up.

A recommendation should be given here that a special committee to respond to such consultations be set up jointly by Japan and India, that is, through the cooperation between the states or SISI's and chambers of commerce and industry in Japan. The proposed tie-up will also progress, if India positively sets conditions for it. If

India set up an organization to facilitate the induction of techniques from Japan, Japan will naturally create an organization corresponding to it.

If any of the above steps should be taken, various consultant offices established by Japan on a semi-governmental basis in India will function more effectively. The following offices have been established in India:

(a) Japan Consulting Institute, 28, Barakhamba Road, New Delhi.

(b) Japan Industrial Consultants in Mysore, 8, Church Street, Bangalore-1.

(c) Japan Engineering Consultant Office in India, Room No. 93, 5th. Floor, Stephen House, Dalhousie Square, Calcutta-1.

(d) Japan Machinery Center, "Mistry Bhavan" Dinshaw Wachha Road, Backbay Reclamation, Bombay-1.

It should be remembered that Japan does not hesitate to extend technical aid to India. If proper conditions of tie-up are set, the tie-up will certainly make headway, except for some specific industries. Time will be required for Japan-India co-operation for production of goods, which is restricted under conditions of tie-up between Japan and other countries, such as transistor, or for which there is a marked difference in the degree of technical development between Japan and India, such as watch making and other precision industries.

Our delegation found that India was interested greatly in sending technicians to Japan for receiving training. Many questions were asked about the matter at various places.

As far sending of technicians to India by Japan, a list of technicians has been compiled already by the Chambers of Commerce and Industry in Tokyo and Osaka. Japan can assign them to India at any time, if a proper set-up for receiving them is arranged by India.

It is believed that the dispatch of Japanese technicians will progress, if India designate for this purpose a specific organization, for example, the All India Manufacture Organisation etc. The Japanese Government will assign shortly a special official to New Delhi to handle this problem.

Japan will probably be able to receive a considerably large number of trainees from India, judging from the number received under the Colombo Plan.

Some of the factories may reject the entry of foreign technicians because they use special techniques that cannot be made public, but Government and public training facilities will receive them to their capacity. It is desirable, therefore, that foreign technicians will enter these official facilities first and then proceed to specific factories and plants. The latter facilities, however, may attach some conditions for their participation.

(7) *Diagnosis or Consultation*

Small industries should undergo an examination of their business conditions from time to time in persuit of a lasting prosperity. The checkup should be made of all phases of their activities, including production and sales of their goods as well as financial backgrounds and working conditions, and recommendations based on such examination should be made to them for streamlining business.

We took up this problem because no enterprises can enjoy prosperity without reasonable and effective methods of administration.

The proposed examination of small industries should be carried out free of charge by a governmental organization because such industries, unlike big industries, generally cannot afford to employ a panel of experts to do such a job for them.

The diagnosis must be made by well-educated and experienced men with a respectable character because operators of enterprises, however small they may be, are also men of experience. It is not too much to say that whether the proposed system succeeds or not depends upon the quality of examiners.

All examiners must be registered with the proposed governmental organization and the results of their checkups must be kept secret.

The system of diagnosing small industries in Japan has a history of more than 10 years. More than 5,000 examiners are now registered with the designated examination organization and they examine some 10,000 plants a year on the average.

For setting up such a system, it is advisable that to review the system at first and then to proceed with the training of examiners.

(8) *Organisation of Technical Policy Committee*

(a) Technical Committee on Overall Development

Questions were asked in Assam, Kashmir and other special regions about the methods of development of industries which would

utilize indigenous raw materials for production and those which would match the local climate, transportation and other conditions.

In the Assam district, the question of how to develop industries using pine resin and turpentine, the specialities of the area, and also silk and lumber industries was the main subject of discussion. Another topic was the question of how to introduce machines into the indigenous handicraft and cut down production cost.

To answer these questions, a detailed study and investigation seemed necessary. It was deemed proper to establish a technical committee in each state and determine, on the basis of study of this organization, basic development measures for such industries. The committee should include in its membership experts from all strata of society.

(b) Establishment of Industry-wise Technical Committees

Government organizations for guiding small industries, it is believed, must be so designed as to win their popularity. If not, small industries will turn their back upon them.

It becomes necessary, therefore, to reinforce the research system of SISI and, at the same time, to create in it a new committee that will respond to technical consultations of industries. The committee should at first handle consultations regarding such basic industries as iron forging, casting and welding as well as painting and heat treatment and then those concerning specific industries.

The committee should also try to remedy the trend of technicians failing to land jobs after receiving training and to meet the expectations of their employers by bringing technical training centres and industrial circles closer together.

It seems that in India a close collaboration has been absent between universities and industrial circles. It is our view that even the brains of high educational institutes should be mobilized for the sake of industrial development. In Japan, the importance of co-operation between the two is indicated by the word "collaboration of education and industry" which has come to be used widely these days. It is to be hoped in this connection that research institutes of various universities should send their members to the proposed committee.

(9) *Others*

The following are a series of measures which are considered helpful in improving techniques:

(a) Establishment of Standard or Model Plants

A number of plants in each industrial estate should be designated as standard or model plants and be given maximum official guidance and support so that they may grow into plants whose pattern other plants can follow.

(b) Import of Samples and Their Analysis

It is advisable that SISI's and similar research organizations should import samples of superior quality products from foreign countries, make a detailed study of them and offer the results of this study to small industries.

Information on designs and raw materials used for them will prove of great value for small industries producing handiworks and sundries, especially those for export purposes.

(c) Disbursement of Subsidies

Payment of subsidies to small industries for manufacturing new products, whether they are for export or for domestic consumption, will serve to arouse their interest in industrial researches and experiments. A fairly good result has been obtained from this system in Japan.

(d) Honor System

It will also prove helpful to set up a system to honor small industries showing specially good ability of business management or achieving successful results in manufacturing novel or high-quality products. A plant which shows a fine example in various aspects of industrial activities should also be commended.

(e) System to Encourage Invention

This system will serve to help industries produce high-quality goods or new products.

CHAPTER VI

MISCELLANEOUS

I. National Small Industries Corporation (NSIC)

National Small Industries Corporation was established in 1955 for the purpose of administering affairs related to small-scale industries handled by the following five divisions:

(a) *Government Purchase Division*

(i) Assistance to small units in securing government orders.

(ii) Development of small industrial units as ancillaries to large ones.

(b) *Marketing Division*

(iii) Marketing assistance including export promotion.

c) *Hire Purchase Division*

(iv) Supply of machinery under a hire-purchase scheme.

(d) *Industrial Estates Division*

(v) Construction and management of two industrial estates (in Okhla and Naini).

(e) *Project Division*

(vi) Setting up and running of two Prototype Production-*cum*-Training Centres (in Delhi and Rajkot).

The businesses described in (v) and (vi) are administered by every State Government, but the States in parentheses commission the National Small Industries Corporation to do the jobs, which have been explained in other chapters.

A. GOVERNMENT PURCHASE

This system was set up in order to give priority to small industrial units whenever the government, the greatest purchaser in the country, make purchases. The procedure is as follows:

(a) The goods, which the government purchases, are divided into four groups, and the steps to be taken by the National Small Industries Corporation (NSIC) are formulated.

Group 1.—Items which are of no interest to small-scale units and can be produced in the large-scale sectors.

Group 2.—Items which by their very nature require large-scale firms as prime-contractors, but permit substantial scope to the large-scale contractors to purchase components and parts from small scale units.

Group 3.—Residuary items which firms both in the large-scale as well as in the small-scale sector can supply.

Group 4.—Items which could be reserved for procurement from small-scale units only.

As the National Small Industries Corporation has nothing to do with goods coming under Group 1, it takes no action. In the case of Group 2, officers in charge in the Ministry of Works, Housing and Supply, call the attention of large-scale firms which are prime contractors and superintend them in close co-operation with the Regional Small Industries Service Institutes.

Of Groups 3 and 4, when the items to be procured are related to small industries, the Director General of Supplies and Disposals sends the copies of tender sets to the liaison officers of NSIC and they in turn distribute those copies to the registered small units to afford them the chance to make bids. In the case of Group 3, in competing with big firms, small-scale industries can enjoy the benefits of the price preferential system under which contracts will be awarded to small-scale firms in case their biddings are no more than 15 per cent higher than those by large competitors.

For registration, any unit is required to pass inspection by the Small Industries Service Institute and obtain a Certificate of Competency from NSIC.

At present the designated items in Groups 3 and 4 total 3,141,16 of which (———) belong to Group 4 and are to be purchased only from small industrial units. In the meantime, the registered factories number 3,935, as many as 399 of which are located in Punjab State. There are also many factories in West Bengal, Bombay, Madras, and Uttar Pradesh States, while Orissa and Madhya Pradesh are at the bottom of the list, having less than 10 each. The 16 items in Group 4 are as follows:

(1) brass padlocks, (2) g.i. padlocks, (3) brass dampers, (4) boxes made of metals, (5) painted sign boards, (6) button metals, (7) postal seals, (8) all badges, cloth embroidered and metal (not for Defence), (9) belt leather (apparel), (10) cash bags, (11) dust shield leather,

(12) chappals and sandals, (13) leather boxes (not army type), (14) laces leather, (15) leather bags, (16) boots and shoes of types required by civil indentors only.

Government purchases under this system are on the increase, accounting for nearly five per cent of the total government purchases regarding these items. (Unit: 1,000 rupees),

1956-57	1·19
57-58	62·14
58-59	256·12

However, this system is limited to general offices which have the store purchase system, a limitation which considerably diminishes the real significance of the system. To expand its application, therefore, the National Small Industries Corporation is currently negotiating with the Ministry of Railways and the Chief Controller of Printing and Stationery.

B. Establishment of Ancillary Relation

This system is purported to establish cooperative relations between big firms and small units concerning dealings in parts, accessories or materials. When contracts are entered into, big firms will purchase those parts, accessories or materials which will be manufactured by the latter. It seems, however, that this system is not intended to establish sub-contract relations between big and small enterprises such as are seen in Japan. But it is quite natural that once any contract is made, cooperative relationship between the two parties is established, lasts and grows. In India, technical standards of machinery and metal industries, specially of small industrial units, are very low, and there is little difference in production costs between small and big enterprises. Hence there seems to be little possibility of small enterprises sub-contracting for larger ones like in Japan as the natural result of economic standpoint.

The National Small Industries Corporation requests big firms to submit a list of items which even smaller enterprises can manufacture, and also the estimated prices of those items; it looks for suitable smaller enterprises with the cooperation of the Small Industries Service Institute and persuades large firms to enter into contracts with them. In some cases, NSIC itself signs contracts with big firms on behalf of the small enterprises and delivers the products it purchased from them. It seems considerably difficult for such intermediary business to make a success, and therefore there have been only six such cases in public and private sectors respectively,

according to official reports. However, in view of the fact that there are still many pending cases in the hands of State Governments, it appears certain that the number of such contracts will increase in the future.

At every meeting during our tour, Indian government officials and industrialists are keenly interested in the situation of Japanese smaller industries with reference to their collaboration with the big ones and eager to hear suggestions and advice from the Japanese delegation, and so we want to consider this problem from a different angle (See E. Suggestions).

C. Marketing Assistance

(a) *Wholesale Depots*

With a view to standardizing products manufactured by small industrial units and promoting their sales, there are six wholesale depots in Agra, Khurja, Aligarh, Calcutta, Bombay and Renigunta. They either buy up products from small-scale producers or sell them on consignment, and all products handled by the wholesale depots are marked with "Jansevak," a label which proves their qualities. By the end of February 1959 the proceeds totalled Rs. 25,00,000.

(b) *Export Promotion*

NSIC is making efforts to export seven articles, mentioned below, but its actual export records are not so encouraging. Only about 500,000 pairs of shoes have been exported to the Soviet Union and Poland.

(1) Leather footwears and leather goods

(2) Cotton and woollen hosiery

(3) Sports goods

(4) Builders' hardwares, locks and scissors.

(5) Tinned fruits, chutneys and pickles

(6) Paints and varnishes

(7) Glass beads

NSIC has been sending many samples abroad and participating in trade fairs, but its achievements so far do not seem to have been brilliant.

(c) *Import and Distribution*

NSIC has been also importing and distributing, with the cooperation of the State Trading Corporation, critical raw materials, such as copper, zinc, copper and brass scrap, cycle and machine parts and knitting needles. Since steel is under government control at present, NSIC provided facility for its rationing by setting up a depot at Ludhiana, Punjab.

D. Hire Purchase of Machines

The hire purchase system is one of NSIC's most important projects. It helps small industrial units to purchase necessary machines and equipment by low-interest, long-term yearly instalments:

(1) Earnest money—20 per cent (10 per cent for less than Rs. 2,000; 15 per cent for Cooperatives).

(2) Term—No longer than eight years, biennial instalments.

(3) Interest—Annual rate: 4·5 per cent for up to Rs. 15,000 (3·5 per cent for Cooperatives).

This system seems to be quite successful, and during the period of our tour we happened to see many machines, especially imported ones, purchased under this system. The records by the end of August, 1959 are:

Application—Rs. 5,83,00,000

Purchase—Rs. 3,90,00,000

Delivery—Rs. 2,23,00,000

Nearly 80 per cent of loans have been used to purchase machines from abroad. As the average price is about Rs. 8,000, machines supplied under this system seem to be of small or medium size.

E. Suggestions

The National Small Industries Corporation is doing manifold works, which are in most cases not inter-related, but its existence is quite significant in view of the fact that it is doing what other institutes are not doing. As there is no doubt about the role played by NSIC in relation to smaller industries of India, we hope to encourage expanding the scope of its work. Some suggestions will be given below:

(1) The items for government purchase should be increased—especially those marked for small industries. This system had better be applied also to other government bodies, such as the National Railways and Arsenals, which enjoy close relations with

machinery and metal industries as the greatest customers. Application of this system to the abovementioned bodies, therefore, will help develop small-scale machinery and metal industries as ancillaries.

However, the 15 per cent price differential under the price preferential system seems to be too much. By lowering the percentage gradually, it is desirable to strengthen the competitive power of smaller industries.

It seems advisable to apply this system not only to purchases by the Central Government but also to those by the State Governments. There are only two or three State Governments applying this system to their own purchase. The State Governments are under an obligation to promote small industries as proclaimed by the Constitution, and therefore they ought to be more interested in this system than the Central Government.

(2) An attempt to establish ancillary or feeder relations between small units and big enterprises in India is accompanied by much difficulty, for there is no such economic need in the country as in Japan. It seems advisable, therefore, for small industrial units to manufacture the parts, accessories or materials of wide or common application, such as bolts, nuts, rivets, nails, wires, the cast metals which can be mass-produced, taking full advantage of specialized production. Although such works as machine processing may probably be hard to pass over to small enterprises, finishing works such as gliding and blowing, and woodworking works seem suitable to specialized production by small enterprises.

All these, however, depend on persuasion and guidance on the part of large enterprises. Fortunately, in India, the government sector is considerably vast, embracing many state-managed machinery plants of large scale. The Central Government should be the first to push the collaboration between small units and big government units. Either the Government or NSIC should systematically help design the government units not to produce abovementioned items and take good care of funds, machinery and equipment and technicians in establishing and developing small ancillary units producing such items. On the part of the big units it is also needed to encourage the development of small industries through lend-lease of blueprints, jigs and tools, machines and equipments, and at the same time sending technicians, making inspection of their products.

The same is the case with factories in the private sector. Besides persuading the existing big units, the Government or the National Small Industries Corporation should take this into account in sanctioning new ones. Future development of Indian machinery an

metal industries are largely dependent upon the collaboration of small units with large ones.

In the eyes of foreign visitors, it looks quite queer that there are no swarm of factories in the Bangalore Industrial Estate which work for the Hindustan Machinery Tool Factory and Indian Aircraft Factory and few small-scale plants in the Kurla industrial area in the suburbs of Bombay which sub-contract for the Premia Automobile Factory. It looks all the more queer when it is told that the number of workers exceeds 5,000 in each of these big factories beyond the optimum scale for management. Competent authorities such as NSIC and SISI ought to pay serious attention to these facts.

(3) Marketing should be done on the responsibility of each enterprise, big or small. Constant and strenuous marketing efforts alone will be able to improve the quality of products, lower production costs and rationalize management. Any attempt to let a certain body, specially a government body, conduct marketing will make an enterprise a mere technical mechanism in production and discourage the independence of enterprises, thus crippling their entrepreneur's spirit. If such practices should spread to cover a wider sector, it will mean a sort of government control and run counter to the policy of developing small enterprises as private enterprises.

NSIC's or state governments' direct marketing measures, therefore, should not be expanded any more, but be limited to consignment alone. As marketing assistance, marketing by cooperatives needs to be encouraged. But cooperatives are too weak to undertake this work at present; therefore, stronger cooperatives, as mentioned in Chapter III, their federations or apex societies, are to be in charge of marketing, with the government assistance being limited to indirect one, such as subsidies to establish depots, to cover some part of their expenses such as freight.

However, in respect to export marketing, governmental bodies, such as NSIC, should do the job because it is beyond the power of any cooperatives or federations. In this sense, what NSIC is doing at present goes against this principle, and it is required to redouble its efforts to cultivate overseas markets. More details will be described later.

(4) The hire purchase scheme is one of the most effective measures now being taken by the Indian Government. Its scale, small as it is at present, has to be expanded. Under the current acute shortage of foreign currency, India cannot pin high hopes on the importation of foreign machines, except through special payment arrangements, and so their home production should be encouraged.

Nowadays the production of industrial machines and machine tools has been making gradual progress in India, and considerable part of them are being sold to the local market without any order. If, therefore, NSIC should give appropriate guidance, and systematically place orders, it will be possible for them to carry out mass-production. Such actions will no doubt result in the promotion of machinery industries, standardization of machines and planned supplies. Simplification of the present procedures is another urgent need.

(5) NSIC has not yet attained its target in securing scarce raw materials for the small scale units. According to our experience in Japan, facility for rationing and procuring of those raw materials under government control should be the very root of measures for small scale units, and this seems to be the most suitable work for such government organization as NSIC. Here are some suggestions:

(a) Of those goods and materials domestically produced, such as iron-steel, coal and coke, NSIC should secure the necessary quantities of those materials for the small industries, stockpile them in depots or yards in major industrial zones, and deliver them to small units at their requests.

(b) As to imported raw materials such as non-ferrous metals, petroleum and chemicals, NSIC should be allocated necessary foreign exchange to import materials, and after importing them, stockpile them in depots or yards. Now that it is becoming difficult to import essential raw materials owing to the shortage of foreign exchange, we feel that the government or NSIC should undertake such imports.

(c) In distributing the foregoing raw materials, top priority should be given to applications from cooperatives just as in the existing case of industrial estates.

Considering the future activities of NSIC, it will be utterly impossible to have such manifold task undertaken by nation-wide organization with its four branches (in Delhi, Bombay, Madras and Calcutta). It is advisable to set up a small industries corporation in each State and make NSIC their central organ. NSIC should undertake inter-governmental or international business such as planning and coordination, securing budget, and foreign exchange, and promotion of exports. With regard to affairs concerning individual enterprises, the State Small Industries Corporations should take care of them. In other words, a wide range of power should be delegated to each State Small Industries Corporation, which should dispose of problems as much as possible.

II. INDUSTRIAL ESTATE

A. Purpose of System

The industrial estate is an industrial area where factories, industrial water, electricity and transportation are appropriately arranged under direct or indirect government assistance.

This is a unique system for smaller industries which is hardly seen in any other countries. In the Second Five Year Plan, 110 industrial estates were originally envisaged, but the number was reduced to 97 in the final draft, for which Rs. 111,200,000 was earmarked. This project was undertaken by State Governments and NSIC with the financial assistance of the Central Government. Since the Second Five-Year Plan started in 1956, there were launched seventy-six industrial estates 40 of which have been so far completed. As against the budgetary appropriation of Rs. 50,400,000? Rs. 52,600,000? has been expended, this project has shown remarkable progress.

B. Present Situation—A Model

Among those industrial estates, Okhla (Delhi), Rajkot (Bombay), and Guindy (Madras) are well-known. The Guindy Industrial Estate, which we visited, is in the city of Madras, covering 70 acres of space at present (it will be expanded another 73 acres in the future). There exist 97 sheds and 78 enterprises. Various lines of business are involved, but most of them are machinery industries. The rent is as low as 60 per cent of the ordinary one, and many machines, bought under NSIC's hire-purchase system, are employed. Critical materials such as iron and steel are secured on an eight-hours-a-day and 25-days-a-month basis. The State Bank of India helps them by setting its credit line near the level of one-month sales. But electricity is short and sometimes cut off at the peak of demand in the evening. The electricity charge is rather high, being 2a/kmh. There are various facilities such as the Service Institute, training centres, and technical institutes within and near the estate to help the estate residents in technical matters. These facilities are seemed to be another pride of this Estate.

As far as our observations go, other industrial estates have not been so well equipped as Guindy. But the other industrial estates, too, follow the same line of conception, that is, cheap rents, lend-lease of machines on the hire-purchase formula, securing of raw materials, technical assistance through various centres and institutes, loan facilities through the State Bank of India, etc. In other words these industrial estates seem to be a concentration of governmental measures toward small-scale industries.

C. Our Evaluation and Suggestion

The industrial estate system is indeed playing a pioneering role in fostering small scale units, and strenuous efforts rendered by the Indian Government in this direction are outstanding. The most significant point, however, is the dispersal of small industries or the industrialization of rural areas. This system should be highly evaluated as the first step to lead the national economy as a whole to the well-balanced development by avoiding concentration of population in big cities and encouraging the development of rural economy. As one of the lofty purposes of this project is to modernize small scale industries side by side with large industries, enterprisers within the estate should be full of the enterprise and carry on their business on their own feet. From these considerations, the following suggestions may be made :

(1) Industrial estates should be further increased and scattered throughout the country, especially where there are rich potentialities of industrial development viewed from the angles of raw materials and market conditions, and also where the modernization of manual trade is urgently needed.

(2) Although the Central and State Governments are taking the initiative in building up such industrial estates, they should also encourage private enterprises or co-operatives to participate in the project by giving the latter subsidy or some other proper measures.

(3) Where there is no electric supply, consideration should be given to establishing small-scale water power or diesel power plants.

(4) Selection of applicants for residing in industrial estates is naturally to be done according to a certain criterion, and more attention should be paid as to the proper types of industries to be set up in the estates. It will be a good idea to mobilize the unique raw materials and techniques of the respective areas in order to form a big production centre. If there are big enterprises in the vicinity of estates, consideration should be given to establishing ancillary relations between the small units within the estates and these big enterprises. The inducement of repair shops for indigenous industrial is also important.

(5) So far as we observed, the rent is about half the current one. It may be desirable to raise it gradually as they

start operation. And when their business become established on firm and stable foundations, the Government had better release estates to residing industrialists by easy payments and gradually bring economic conditions there to normally.

III. *Export Promotion*

A. Analysis

The promotion of the export of small-scale industry products not only contributes to earning precious foreign exchange but also accelerates the development of production by small industrial units and modernization of related industries.

For export promotion, the following are the basic pre-requisites: (a) improvement of quality and design, (b) the lowering of production costs, (c) establishment of the mass-production system, (d) marked cultivation and publicity, etc. The government can help small-scale industries to attain these prerequisites by subsidizing. the improvement of machinery and equipment, securing necessary raw materials and power supply, extending financial facilities to exporters and manufacturers, encouraging the standardization and the inspection of export goods, and giving support to sales promotion abroad.

The volume of exports by small-scale industries are not so large. Although we have not inspected all trade statics, the percentage of those export items which are produced entirely or almost entirely by small industrial units is still very small. In 1958, only a handful of items undermentioned exceeded Rs. 100,000 each, and their total export value was no more than Rs. 20 million. They are :

Bolts and nuts, wire nails of all types, electric fans, diesel engine (vertical stationary), builders hardwares, fruits and vegetables preservation and preparation, air conditioning and commercial refrigerator equipment and prats, locks (all kinds), sports goods, umbrellas, spectacle frames, and hosiery goods.

In addition, there were exports of handloom products and handicraft products, though they may not be classified into the small-scale industries in the narrower sense of the terms. The former totalled 59 million yards (Rs. 86 million) in 1956, but the export figure dropped to 37 million yards (Rs. 55 million) in the following years. India's largest market is Ceylon, followed by Malaya and Nigeria.

In respect to handicraft, the export value totalled Rs. 84 million in 1956 and Rs. 63 million in the following year. The biggest item

is "carpets and druggets," accounting for more than 60 per cent of the total, and next comes "brass and bronze wares." The main market is U.K. representing about 45 per cent of the total, and next comé the U.S.A. and Canada.'

The export value of these three is no more than Rs. 150 million, or a bare three per cent of the total export value (Rs. 5,700 million).

The government policy for sales promotion has been already dealt with in the chapter for NSIC. In the field of handlooms, enterprises themselves seem very active in export trade, and the government has given full support to them. They sent three teams of commercial travellers to neighbouring markets and established emporia in Singapore, Bangkok, Colombo, Aden, and Kuala Lumpur, and participated in international fairs at various places (seven in 1957). The standards and rules for export inspection have been adopted, and common trade marks have been labelled to avoid exports of low-quality goods. Such efforts are bearing fruit, and India seems to have secured stable and big markets in Southern Asia and Africa. It merits special mention that the Government is taking positive steps on the initiative of economic organizations including the Handloom Weavers Association.

It seems to us that the most under-developed of the industrial sector is handicraft probably because there are a wide variety of products and works involved, and is no uniformity. To make matters worse, handicraftmen are emotionally independent and not mutually cooperative-minded because of their craftmanship. Nevertheless, the government should take more positive steps in this field of industry—going beyond merely establishing emporia and sales depots or taking part in international trade fairs.

B. Our Suggestions

Of these three industries, handloom enjoys the best export promotion measures, while government assistance is the matter to be counted on in the future for the other two. However, under prevailing circumstances, it is likely that the so-called small scale industry, having abundant domestic demand, will have to strive for catering for the domestic market at least for a few years, and then ship its products abroad. In the course of domestic market cultivation, however, industrial modernization will make progress, and exportable goods of low price and high quality may be turned out.

At the present stage we think, India's products of the small-scale industries cannot compete with their foreign rivals nor maintain overseas markets. It is desirable, therefore, to improve the quality of export goods in the process of domestic market cultivation.

As to handicraft products, on the other hand, we have witnessed many emporia in India where 10 to 20 per cent of the total amount were bought by foreigners. Therefore, depending upon market cultivation efforts, they would possibly acquire a sizable market abroad.

The following suggestions may prove conducive to their export promotion:

(a) While India's traditional features should be preserved and used effectively in design and colour, much more efforts are necessary to turn out products which appeal to the modern tastes of foreigners. In this context, invitation of foreign designers may be advisable.

(b) As the prices of handicraft products seem generally too high, production costs need to be cut down not only through industrial mechanization but also through simplification of designs. Simple designs are preferred by foreigners, and at the same time greatly help bring down production costs.

(c) The industry should be fully prepared to receive bulky orders. Modernization of manufacturing processes will serve the purpose. Naturally it is sometimes difficult to mass-produce handicraft products, but in this connection, the instruction of foreign technicians and positive assistance of the government are required. As far as we understand, the mass-production system itself never kills the artistic value of products.

(d) The government needs to step in more positively for public relations and sample exports. India's major market destinations being in Europe and America, the government should open show rooms in big cities, especially in the centres of new fashions and modes, and also participate in trade fairs more actively.

The excellent achievements of JETRO (Japan Export Trade Recovery Organization) present a good example for India to follow.

As for what improvements should be made for handicraft products, reference is requested to be made to the report by Mr. Fukuoka, in which, it is hoped, helpful suggestions will be found.

ANNEXURE

Schedule for the Japanese Delegation on Small Scale Industries

Aug. 4 (Tue.) Arrival at New Delhi, and took rest at Ashoka Hotel.

5 (Wed.)

9·00 Visit to Okhla Industrial Estate.
10·30 Call on Mr. Manubhai Shah, Minister for Industry.
11·30 Meeting with government officials, including
Mr. Iyer, Development Commissioner
Mr. Ramachandran, Joint Secretary
Mr. Saraf, Director of Handicrafts Board.
15·30 Meeting with Director of National Small Industries Corporation.
17·30 Meeting with Development Commissioner and his staff.
20·30 Reception by Minister for Industry at Hyderabad House.

6 (Thur.)

9·00 Visit to Central Cottage Industries Emporium.
11·00 Visit to the office of the All India Handicrafts Board.
12·00 Visit to Kashmir Government Arts Emporium.
13·00 Visit to Indian Handicrafts Development Corp. (Private).
15·00 Meeting with some of the officials and non-officials connected with cooperative movement in Small Scale and Cottage Industries including Mrs. Kamladevi Chattopadhyay and Mr. L.C. Jain.
19·00 Reception by Mr. Nasu, Japan Ambassador.

7 (Fri.)

9·00 Meeting with the government officials concerned in Statistics including Mr. Mathew and Dr. P.S. Lokhanathan.
11·00 Call on Mr. Lal Bahadur Shastri, Minister for Industry and Commerce.
11·45 Meeting with the government officials concerned in Training.
16·00 Meeting with Khadi & Village Industry Board, including Prof. Dr. Gyanchand.
21·35 Leave Delhi by N.R. for Ludhiana.

8 (Sat.)

5·20 Arrive at Ludhiana and take a rest at Canal Guest House.
9·30 Meeting with Director of Industries, Director of S.I.S.I. & etc.
12·00 Visit to several Industrial units, workshop of S.I.S.I. & Depot of N.S.I.C.
15·00 Meeting with industrialists.
21·25 Leave Ludhiana by N.R. for Delhi.

9 (Sun.)

7·20 Arrive at Delhi, and take rest at Ashoka Hotel.
18·00 Visit Delhi Fort.

10 (Mon.)

8·30 Leave Delhi by plane for Lucknow.
10·10 Arrive at Lucknow and take rest at Carlton Hotel.
11·10 Attend general meeting of Small Industries Committee.
12·00 Meeting with Director of Industries, Director of S.I.S.I. and other gentlemen.
15·00 Meeting with Dy. Minister for Industries.
21·20 Leave Lucknow by N.R. for Delhi.

11 (Tue.)

8·20 Arrive at Delhi and took rest at Ashoka Hotel.
19·00 Leave Delhi by plane for Bombay.
22·10 Arrive at Bombay and take rest at Taj Mahal Hotel.

12 (Wed.)

11·00 Visit to Small Indutries Service Institute.
12·00 Visit to State Cooperative Bank.
15·00 Visit to Textile Commissioner, headed by Mr. Joshi.
16·30 Visit to Bombay Mercantile Cooperative Bank.
(Arai) Visit to Bureau of Economics & Statistics.
17·30 Visit to Handloom Emporium.
18·00 Meeting with All-India Manufacturers' Organisation.

13 (Thur.)

9·40 Visit to Japan Machinery Centre.
10·30 Visit to State Bank of India.
12·30 Call on the Governor of Reserve Bank, Mr. Ienger.
13·30 Lunch by the Governor.
14·30 Meeting with gentlemen concerned in Finance including Director of Reserve Bank.
16·00 Visit to Khadi & Village Industries Commission.
20·00 Buffet dinner by the Japanese Consulate.

14 (Fri.)

10·00 Call on Chief Minister, Mr. Chavan.
11·00 Meeting with Minister for Development, Mr. Wankhede.

(Izuchi and Yasue)

„ Visit to State Financial Corporation.
15·00 Visit to small-scale industrial units.
16·00 Meeting with the members of cooperative societies.

15 (Sat.)

15·00 Leave Bombay by car for Bangalore.
23·30 Arrive at Kolhapur and take rest at Circuit House.

16 (Sun.)

9·00 Leave Kolhapur by car for Bangalore.
13·00 Visit to the Handicrafts Training School of Dharwar.
23·30 Arrive at Bangalore, and take rest at Residency.

17 (Mon.)

9·00 Meeting of members preparing the report.
11·00 Call on Chief Minister, Mr. Jatti.
13·30 Lunch by the Chief Minister.
14·30 Meeting Mr. Beerappa, an expert in rural indusrialization, and the gentlemen from the Bank of Mysore, State Bank of India.
15·45 Visit to Design Centre & Emporium of Handicrafts.
17·45 Leave Bangalore by plane for Madras.
18·40 Arrive at Madras, and take rest at Conemara Hotel.

18 (Tue.)

9·00 Visit to Guindy Estate.
11·00 Meeting with the industralists in that Estate.
16·00 Meeting with the gentlemen of Small-Scale Industries Co-operation.
16·45 Visit to the Government Emporium.
17·30 Meeting with members of the Chamber of Commerce of Small Scale Industries.

19 (Wed.)

9·00 Visit Small-Scale Units.
10·00 Visit to Export & Import Controller.
11·00 Visit to Small Industries Service Institute.

(Izuchi and Yasue)

,, Visit to Leather Workers Cooperative Society, Handloom Weavers Cooperative Society, State Cooperative Bank, State Investment Corporation.
14·00 Meeting with the Director of Industries.
15·30 Call on the Minister for Industry and Labour, Mr. Venkataraman.
17·15 Leave Madras by plane for Calcutta.
20·15 Arrive at Calcutta, and take rest at Grand Hotel.

20 (Thur.)

9·30 Call on the Chief Minister, Dr. B. C. Roy.
10·30 Meeting with the gentlemen concerned, including Director of Industries, Director of the N.S.I.C. and the S.I.S.I.
11·45 Meeting with industrialists.
13·00 Lunch by the Minister for Industry, Mr. Majumdar.
15·30 Visit to the Uday Villa (Womens' Industrial Cooperative Society).
17·00 Visit to the Technical Centre.
19·30 Buffet dinner by the Japanese Consulate-General.

(Arai)

10·00 Visit to Director of State Statistical Bureau.
15·00 Visit to Indian Statistical Institute.

21 (Fri.)

(Team A—Iwatake and Izuchi).
8·35 Leave Calcutta by plane for Bhubaneshwar.
10·20 Arrive at Bhubaneshwar

11·00 Meeting with government officials, including Minister for Industries, Mr. Singh Deo, and financial people.
14·00 Drive for Puri.
17·30 Visit to Industrial Estate near Cuttack.
18·00 Meeting with members of the Chamber of Commerce of Cuttack.

(Team B—Yasue and Wakamato).

7·00 Leave Calcutta by plane for Gauhati.
9·05 Arrive at Gauhati.
11·00 Meeting with Industrialists and Bankers.
17·00 Arrive at Shillong and meeting with Government Officials, industrialists and bankers.
19·00 Call on the Minister for Commerce and Industry.

(Arai leaving at Calcutta).

10·00 Visit to Indian Statistical Institute.
14·00 Call on Prof. Ghosh, Director of Industrial Statistics.
10·00 Visit to Director of State Statistical Bureau.
15·00 Visit to Bureau of Industrial Statistics.

22 (Sat.)

(Team A)

9·30 Visit to Sakhigopal Narimangal Cooperative Society.
11·00 Visit to Gobindpur M.P. Cooperative Society.
12·30 Leave Bhubaneshwar by plane for Calcutta.
14·30 Arrive at Calcutta, and take rest at Grand Hotel.

(Team B)

10·00 Meeting with Industrialists, Government Officers and Bankers.
17·10 Leave Gauhati by plane for Calcutta.
19·15 Arrived at Calcutta, and take rest at Grand Hotel.

23 (Sun.)

10·00 Meeting of members preparing the report.
14·30 Visit to Botanical Garden and Museum.
19·30 Reception by Japanese Consulate-General.

24 (Mon.)

9·00 Meeting with government officials, including Minister for Commerce and Industries, Mr. Majumdar, Director of Industries, Mr. Mallick.
11·00 Visit to Central Engineering Organisation at Howrah.
14·30 Visit to D.G. of Commercial Intelligence and Statistics.
16·00 Visit to the Bengal Ceramic Institute.
17·00 Visit to the Government Emporium.
19·10 Leave Calcutta by plane for New Delhi.
22·00 Arrive at New Delhi, and take rest at Ashoka Hotel.

25 (Tue.)

11·20 Leave Delhi by plane for Hyderabad.
14·00 Arrive at Hyderabad, and took rest at Lake View Guest House.
15·15 Call on Minister for Industry, Mr. Bhagawanthrao.
15·30 Call on Chief Minister, Mr. Sanjiva Reddy.

16·00 Meeting with government officials, including Minister for Industry.
18·00 Meeting with the members of Chamber of Commerce and Chamber of Small-Scale Industries.
20·00 Dinner by the Minister for Industry.

(Arai, leaving at New Delhi).

10·00 Visit to Central Statistical Organization.
15·00 —do—

26 (Wed.)

7·30 Visit to Golconda.
9·00 Visit to Sanathnagur Industrial Estate.
10·20-10·40 Visit to industrial units.
11·20 Visit to S.I.S.I.
12·00 Visit to Handicarafts Training Centre.
12·20 Visit to Cottage Industries Sales Depot.
15·00 Leave Hyderabad by plane for Delhi.
18·00 Arrive at Delhi and took rest at Ashoka Hotel.

27 (Thur.)

(Team A—Iwatake and Arai)

8·20 Leave Delhi by plane for Banaras.
12·30 Arrive at Banaras and take rest at Clarks' Hotel.
14·30 Visit to several industrial units.
16·30 Visit to Sarnath.
20·30 Dinner Party at Clarks' Hotel given by the Employers' Association.

(Team B—Izuchi, Yasue and Wakamoto)

13·05 Leave Delhi by plane for Srinagar.
14·05 Arrive at Srinagar.
15·00 Visit to Government Emporium and Production Centre.
16·00 Meeting and Tea with the Minister for Industries and Commerce.
17·30 Visit to Prime Minister.
19·30 Visit to Industrial Exhibition, the School of Designs and Government Central Market.

28 (Fri.)

10·00 Meeting with the Members of the Employers' Association.
13·30 Leave Banaras by plane for Patna.
14·25 Arrive at Patna, and take rest at Circuit House.
15·30 Visit to the Design Centre.
16·30 Visit to the Industrial Estate.
17·45 Meeting with the Members of the Chamber of Commerce.
20·45 Dinner by the State Bank of India.
22·00 Take rest at Republic Hotel.

(Team B)

8·00 Visit to industrial units.
11·00 Meeting with the Minister for Industries and Commerce.
11·30 Meeting with the Representative of Chamber and Commerce, Banks and Industries.

14·45 Leave Srinagar by plane for Delhi, but owing to the bad weather returned to Srinagar.

29 (Sat.)

(Team A)

9·00 Visit to small scale units.

11·00 Meeting with the Government officials including,
Finance Secretary,
Industrial Secretary and
Director of Industries.

15·25 Leave Patna, by plane for Agra.

18·30 Arrive at Agra, and take rest at Hotel Lauries.

(Team B)

7·30 Leave Srinagar by plane for Delhi.

11·00 Arrive at Delhi, and take rest at Ashoka Hotel (Cancelled schedule to visit Agra).

30 (Sun.)

9·00 Visit to Taj Mahal and Government Emporium.

10·30 Visit to Project Centre (Leather and Footwear).

12·30 Visit to industrial unit.

15·30 Meeting with the Members of Chamber of Commerce.

17·00 Visit to Fatehpur Sikri.

20·20 Leave Agra by N.R. to Bhopal.

(Team B)

11·45 Leave Delhi by plane for Jaipur.

12·45 Arrive at Jaipur.

13·00 Arrive at Khasa Kothi.

13·50 Lunch by the Chief Minister.

14·30-16·00 Visit to Industrial Estate.

17·00 At Home by District Industries Association.

18·40 Round the Town-Visit Rajasthan Handicrafts Emporium, Khadi Board Emporium and Handicrafts Workers Societies.

20·00 Dinner at Khasa Kothi by Rajasthan Chamber of Commerce.

31 (Mon.)

(Team A)

7·00 Arrive at Bhopal, and take rest at Circuit House.

9·30 Visit to handicraft Emporium and Training Centres.

10·30 Visit to industrial units.

12·00 Call on the Chief Secretary and Director of Industries.

14·00 Meeting with Government officials including Secretary of Commerce and Industry, Director of Industries.

15·30 Leave Bhopal by Train for Sanchi.

16·30 Arrive at Sanchi and Visit Pagoda and Emporium.

20·00 Dinner at Sanchi Circuit House.

23·00 Leave Sanchi by Train for Delhi.

(Team B)

9·00 Visit to small industrial units.

11·00 Discussions with (At Khasa Kothi).

1. Registrar, Cooperatives.
2. Managing Director, State Finance Corporation.
3. Agent, State Bank of India.
4. Director, Economics & Statistics.
5. Other Officers of Industries Department.
6. Director, S.I.S.I.

13·30 Lunch by Mr. A.C. Mukerji, Chairman of the Cottage Industries Association.

15·30 Discussions with Jaipur Chamber of Commerce.

17·00 Reach Sanganger and visit Calico Printers Cooperative societies.

17·45 Leave Jaipur by plane for New Delhi.

18·45 Arrive at New Delhi, and took rest at Ashoka Hotel.

Sept. 1 (Tue.)

(Team A)

11·00 Arrive at New Delhi and took rest at Ashoka Hotel.

16·30 Tea Reception given by Delhi Branch of All-India Manufacturers' Organization.

18·00 Meeting with Prof. Mahalanobis.

2 (Wed.)

11·00 Meeting with Officials of Ministry of Commerce and Industry, including :—
Mr. Basu (Director of N.S.I.C.)
Mr. Iyer (Development Commissioner)
and delivered Intermediatory Report.

13·30 Lunch given by the Association of Japanese firms in New Delhi.

20·00 Dinner party given by N.S.I.C.

3 (Thur.)

8·40 Meeting with Mr. Manubhai Shah, Minister for Industry.

4 (Fri.)

18·00 Broadcast on the All-India Radio.

20·00 Dinner given by Mr. Mitsudo, Councellor of Japanese Embassy.

(Arai)

11·00 Visit to Central Statistical Organization.

5 (Sat.)

11·00 Call on Mr. Ranganathan, Secretary, Ministry of Commerce and Industry and Mr. Ramchandran, Joint Secretary of M.C. & I.

13·00 Meeting with Japanese Members of Parliament.

17·00 Meeting with Mr. Manubhai Shah, Minister for Industry.

20·00 Farewell Party given by Mr. Nasu, Japanese Ambassador.

6 (Sun.)

13·00 Lunch given by Mr. Takamizawa, Commercial Secretary of Japanese Embassy.

16·00 Visit to the National Museum and Kutab Minar.

21·30 Leave New Delhi by plane for Japan.

SUMMARY

We arrived at New Delhi on August 4 and left there on September 6. During this period, we talked with competent officials of the Central and State Governments and visited various facilities and small-scale units. We also met the representatives of private organizations concerned with small-scale industries. As a result, we gained certain impressions and had some idea of the actual condition of small-scale industries in India as well as of the promotional measures being taken by State governments for them.

To be sure, our knowledge or impressions may be extremely superficial or one-sided. On the other hand, we have had in our country considerable experience in the present problems in the past, and we believe that our observations, made in the light of such experience, will prove of some help to your Government. This is the very reason why we put down in our report what we had observed and thought.

CHAPTER I

Introduction—Several Impressions About Measures as a Whole

The Indian Government's small-scale industries measures cover very multifarious activities and are carefully arranged. This may be only natural in view of the present developmental stage of economy in India. Judging from an impartial point of view, we may say these measures can stand in favourable comparison with those in force in Japan.

On the other hand, India is extensive in area and embraces in it large numbers and varieties of enterprises which come under the category of small-scale industries. Besides, except for those governed by measures for co-operatives or training facilities, most of the small-scale industries have been instituted only with the start of the second Five-Year Plan.

Therefore, such measures are yet to permeate through all parts of the country and achieve their objectives. For instance, institutions, such as the National Small Industries Cooperation (N.S.I.C.), State Financial Corporation, and State Bank of India, have apparently just started functioning.

Even the organizations like the Small Industries Service Institutes (S.I.S.I.), an organization which is relatively better adjusted, are still in a similar stage. Therefore in the future, adequate appropriation should properly be earmarked in the budget to provide full personnel and facilities, in an effort to attain the desired goal.

(2) A general survey of the governmental programmes gives us an impression that some of them are going too far in protecting and fostering small scale industrialists, with the result that they will be prevented from giving full play to their spirit of enterprise. For example, cooperative societies are given too generous protection. Some states are indulging in setting up institutes in the nature of model centres, so much so that it is feared that the emergence or growth of a private enterprise may be obstructed. The Ceramic Institute or Central Engineering Organization in West Bengal is the case in point.

Insofar as the enterprising spirit of each industrialist forms the essential condition of the growth of small scale industries, the governmental programmes should be arranged so as to induce him to reduce his dependence on the government or others and to cultivate the spirit of independence and self-reliance. Therefore, with the further growth of the national economy, the keynote of the governmental measures should be switched over from that of protection and fostering to that of guidance and encouragement.

(3) Closer study of the governmental subsidy measures shows that some of them, though extremely limited in scope, are functioning like the price differentials subsidy. They are the reduced interest rate on governmental or cooperative loans, subsidies in two to three States with respect to the power rate, or the rent to the industrial estate settler.

Price constitutes the pre-condition for all forms of economic activities. So, a measure in the nature of a subsidy might not only lead to a wrong accounting from the economic point of view. But such subsidies have not been granted to all sections of the general public, so it may give rise to discussion from the viewpoint of equity.

Furthermore, under the prevailing circumstances where the strengthening of resources, such as the induction of private capital, and increase in electric power and estates is the crying need, positive endeavours should preferably be directed in the above direction by decreasing such subsidies.

(4) With the growth of the national economy, most of the manual industries now existing in India, except those of special types, will be destined to get gradually mechanized and thus follow the course of modernization.

Such a trend has presumably increasingly manifested itself since the start of the first Five-Year Plan. However, full-scale introduction of the Industrial Revolution of this kind is presumed to be retarded considerably by deficient energy sources, inadequate capital accumulation and the undeveloped domestic market, characterizing primarily the rural community.

Then, there will still be considerable time before such a process gets going on. This means that, policy maker can earn time, so to speak, for some time to come. If so, the government is desired to take full advantage of this time lag by leading the manual industries adaptable to mechanization to mechanize and modernize themselves gradually on a well organised plan, thereby to cushion off piecemeal any drastic impacts which may result from the industrial revolution.

In the industrially advanced countries, the impact of mechanization on the labour market has been usually resolved in the long range point of view through the process of reduced cost-reduced price-increased demand-increased output-increased employment. India may not be an exception.

Further, from a short-range point of view, the potential unemployment or unemployment arising in consequence of the mechanization should be absorbed by the growth of big business, development of electric power sources, irrigation, transportation and other public utilities. If it may be asserted that manual industries should not be modernized for the sole purpose of maintaining employment therein on the present level, such an attempt would seem to be the one which tries to set back the dial of history and put the cart before the horse.

(5) The definition or the scope of small scale industries is made not from a theoretical point of view, but is worked out mainly as an expedient in executing policies. In India, at present, the small scale industry is defined as follows:

(A) In case power is used, the enterprise with 50 employees or less for one shift;

(B) In case power is not used, the enterprise with less than 100 employees for one shift; or

(C) the enterprise with real estates (including land, buildings and machines) valued at not more than 500,000 rupees.

This definition may be rather academic and difficult for ordinary small-scale industrialists to understand. Even then, however, it will not require any modification so long as it does not cause too much inconveniences or troubles. Its modification should, therefore, be considered, if, in the future, this should be deemed necessary in view of a possible change in the economic situation.

(6) Recommendations we are going to make in this report are based on long-range prospects for the future of the small scale industries in India. So, we do not expect all of them to be translated into practice simultaneously. This is neither possible nor desirable. It is up to the Indian Government to decide on which recommendations should be given priority.

Then, some of the recommendations are given because they have proved fruitful in our country. Therefore, it may be necessary to consider, through mutual exchange of persons, why they have made a success in our country and what adjustments will be required if they are to bear fruit in India as well. Our government will probably be prepared to accept gladly the proposal which may be put forward by your government.

CHAPTER II

Industrial Statistics

None of the industrial statistics in India covers all categories or full scale of industries. Nor have a considerable number of sample surveys been published. Accordingly, it is impossible not only to give a bird's-eye view of all fields of industries but also to formulate any policy or programme on the basis of statistical data for small scale industries.

Thus, it is vitally necessry, at this juncture, to establish the system of census of industries. In embarking on this undertaking, we are convinced that the following requirements will have to be fulfilled:

(1) Statistics must meet not only theoretical but administrative or practical requirements.

(2) Survey should be confined to the necessary minimum in due consideration of the ability of reporters, conditions of organizations to be entrusted with statistical work, and budgetary appropriations earmarked for the purpose.

(3) Various statistical principles and standards which have been accepted internationally should be adopted as much as possible, thereby to modernize the statistical system

From the above-mentioned point of view, we make the following suggestions:

1. *Variety of Statistical Survey.*

(1) Census shall be taken each year of those plants (including those with power, employing 10 or more employees each and those without power, employing 20 or more employees each) which are subject to the Factory Act.

Some items should be added by the survey to those required to be reported under the Factory Act. But such an addition should be limited to the essential minimum, such as output and consumption of raw materials.

(2) Sample survey shall be conducted once a decade with those plants whose scale is not large enough to be covered by the Factory Act. A consideration number of samples may be used for this purpose.

In order to get some data about the frame of this sample survey, report should be caused to be made incidentally on several items in the 1961 Population Census. In addition, in order to interpolate each 10-year duration, an annual sample survey shall be conducted. The number of samples to be used for this may be far less than the above-mentioned ones.

2. *Survey Set-up.*

(1) The Directorate of Industrial Statistics at Calcutta shall be placed under the Ministry of Commerce and Industry so that requirements of administrative agencies concerned may be fully reflected in the survey for industrial statistics.

(2) The professional personnel in charge of statistics shall be assigned to each State to take charge of the abovementioned census and sample survey.

(3) The Indian Statistical Institute would, in view of its character, be more fitting to assist in the planning and tabulation of the above-mentioned survey instead of tackling actual statistical work. It could also function with advantage if it should take charge of the training of local statistical personnel—professional statisticians of States and enumerators of Districts.

3. *Others.*

(1) Identical and common industrial classification should be applied both in big business and in small business, and fixed in con-

formity with international standards. But certain partial adjustments may be unavoidable in the light of the present stage of industrial development in India.

(2) At present, tabulation of survey outcome takes a fairly long period of time, and is not published in a considerable number of cases. Therefore, full advantage should be taken of mechanical device whereby speed up tabulation, and to publish the result without fail. This is one of the basic principles guiding the modern statistical system.

(3) Under no circumstance should the statistical data be used for non-statistical purposes such as tax imposition and planning. This, too, is one of the don'ts in the statistical system. This point is worth special mention here because it is feared that this principle may not necessarily be observed in India.

CHAPTER III

Organisation

Small scale industrialists' organizations function not only to arrange for mutual aid between those who are economically weak, but also to acquaint them fully with the government programmes.

In India, the cooperative system has been established long since. But the activity of cooperative societies primarily centres on the farming community. In the industrial sector, some organizations of them are observable only in the field of handloom and palm gur.

Moreover, the present cooperative societies in India have been intended principally for independent producers who work single-handed, say, without any employee. As a result, they are too feeble to grow into an efficient industrial body.

None-the-less, in the industrial field the number of small scale enterprises with employees is on the increase. It is therefore necessary, at this moment, to establish the system of small industries cooperatives.

It is also desirable to spread the system of trade association as an autonomous organization by which to give the public a correct picture of the industries concerned and keep close contacts with the government. Such an organization is required not only for the small business but for the big business as well. The following are the principal items of these suggestions:

1. *Establishment of Small Industries Cooperatives.*

(a) In addition to the existing cooperatives, small industries cooperatives shall be established. The new cooperatives shall comprise

as their members proprietors with employees and small firms that, by definition, shall come under the category of small scale industrialists.

(b) This new cooperative shall be organized industry-wise. So, it can comprise as its members the existing industrial cooperatives which fall under the same trade.

(c) The smallest unit of this cooperative shall be set up in an area smaller than the District. An apex society or federation of these units shall be organised in each State.

(d) The Director of Industries of each State shall effect registration of this cooperative and exercise supervision over it. Like the existing cooperative, the new cooperative must be run on the same principles as govern the management of cooperatives.

(e) This cooperative shall work primarily for the joint activities, such as the common purchase of raw materials, common sale, storage, transportation and quality test of finished products, and training of engineers.

Especially with respect to the common sale of the products, it shall be taken care of primarily by the apex society or federation, which shall endeavor, above all else, to market the products to agricultural cooperatives. The Government should render positive assistance in marketing by subsidizing facilities or extending working funds,

2. *Popularization of Trade Association*

(a) It is desirable to give guidance so that a trade association may be organized for each industry in each State.

(b) This Association shall be a voluntary organization of industrialists—as such it shall require no legal basis—which may include as its members cooperatives or their federation, apex society, as well as small and big businessmen.

(c) This Association cannot engage in economic activities. Instead, it shall have for its principal functions the operation of the following activities, which may serve to promote the common interests:

(i) Marketing research of products;
(ii) Collection and dissemination of technical information;
(iii) Guidance in business administration;
(iv) P. R. activities for the related industries and the consuming public; and

neration in the form of establishment of stable outlets in neighbouring countries. We believe that further efforts should be made in this direction, and that improvement of quality, design and marketing methods should be effected further.

(C) In our eyes, not a few handicraft products are fairly eligible for export. But if they are actually to be exported at all, their design will have to be improved, price lowered, mass production setup established. The improvement of design under the guidance of foreign design specialist and mechanization of processing methods are essential for this.

Moreover, at present, the PR and marketing activities on overseas markets are rather dull. More positive PR activities are essential towards major potential buyers. In this connection, it may be profitable to study the PR activities now being carried out by the JETRO (Japan Export Trade Recovery Organization) in our country.

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Following the visit of Shri Manubhai Shah, Minister for Industry to Japan, the Japanese Government sponsored a delegation on Small Industries to visit India. The delegation which was led by Mr. T. Iwatake, Director General for Smaller Enterprise Agency of the Government of Japan, has now submitted its report. It is likely that some of the statistical information given in this report relating to Indian Small Industries may not be up-to-date. The statistical data as also the language of the report and its contents have, however, been left as they are.