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## THE ROLE OF SMALL-SCALE INDUSTRIES IN AN EMERGING IN INDIAN ECONOMY

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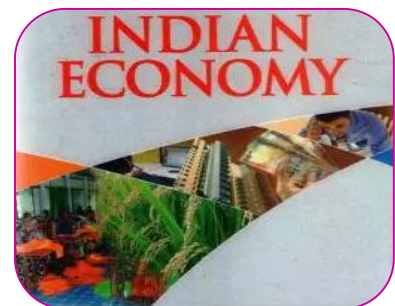
### ABSTRACT

*The role of small-scale industries in the economic development of India in recent years is critically analyzed in this paper. Various factors affecting the growth and development of small-scale industries and the problem faced by this vital sector of Indian economy is examined. The contribution of small-scale industries in employment growth, production, export promotion and other economic indicators are discussed. Conclusions drawn from the analysis of the data suggest that the various policy initiatives taken by the Government of India since independence have helped this sector to grow considerably. Some of the policies of the Government of India may, however, not be very helpful in increasing the efficiency of units in this sector as number of non-viable units is increasing steadily.*

**KEYWORDS:** Green Environment, Green Products, Young Consumers, Consumer Beliefs, Environmental Attitude, Social Influence, Quality of Products.

### 1. INTRODUCTION:

India is an emerging economy with a population of more than One Billion. Nearly 40% of the population lives below the poverty line and 70% of the population is dependent on the agriculture for sustenance. The economic reconstruction of India depends on the balanced growth of economy in the fields of agriculture and industry. Because capital and finance have been scarce in India, the Government of India has encouraged alternatives to agriculture and heavy industries like small-scale industries, which can operate on limited resources. A small-scale industry can be operated by an entrepreneur without needing sophisticated machinery and modern technology. These small-scale industrial units can be established in semi-urban and rural areas where the infrastructure is underdeveloped. The objective is to use local raw material for raising production with the help of local skills. Small-scale industries provide employment without affecting the main occupant iOll -agriculture- of illiterate people in rural areas in India. The other advantages of small-scale units are that these units need short gestation period in establishment, are less dependent on imported raw material and machinery and help in meeting a substantial part of demand Of consumer goods. These units also help in solving the problem of regional disparities in economic growth (Gyan Prakash, 1991). In' recent years, the small-scale sector in India has emerged as' a progressive and decentralized sector on its own. Small-scale industries have made a significant contribution to employment generation in the non-agricultural sector in India. The 1 data available from the Ministry of Small-scale Industries, Government of India (Annual Report 1999':2000) indicates that there has been an excellent growth in small scale industries in 'India in recent years. The number of SSI units in Indi~ ha's increased from 2.082 million in 1991-92 to 3.121 million in 1998 -99. The value of production in these units has increased from Rs.1786.990 Billion to Rs.5275.150 Billion in 1998-99. The volume of employment in small-scale



sector has increased from 12.98 million in 1990-91 to 17.158 million in 1998-99. The growth of employment in small sector is significantly large in small sector than other organized sector in India. Small-scale industrial units have a large potential and an important role to play in India. Sickness or financial distress in small-scale sector is however of great concern to the government of India and the entrepreneurs. The number of sick units has increased from 221,472 in 1991 to 306,221 in 1999 Reserve Bank of India, 1999- 2000). The magnitude of sickness in last 9 years has prompted Reserve bank of India the Government of India to take certain policy initiatives to eradicate sickness. The problem however still persists. The small-scale sector in India is one of the largest in the world.

A study of the problems and prospects of SSI sector in India can help in understanding the problems and potentials of SMEs in emerging economies. In this paper, the current situation and future prospects of Indian small-scale industries are presented and the effects of various policy measures taken by Government of India in promoting SSI sector are examined with the objective of understanding this vital sector of Indian economy. This paper is divided into seven sections. In section 2 of this paper, the legal framework relating to small-scale industries in India is explored. In section 3, the macroeconomic contribution of small-scale industries to India's economy is evaluated. In section 4, the availability of credit to SSI units from public sector banks are discussed. In section 5, issues relating to sickness of the SSI units are examined. The policy issues and future prospects are analyzed in section 6. Finally, an analysis after performance of SSI sector is undertaken in Section 7 and conclusions are drawn from this analysis.

#### **ANALYSIS OF POLICIES AND PERFORMANCE--**

The performance of SSI sector in India can be analysed based on the economic rationale for intervention by the governments in support of small and medium scale enterprises developed by The World Bank and discussed in the paper by Hallberg (2000). According to Hallberg (2000), the economic importance of SMEs can be investigated based on a number of factors such as share of firms and employment, labour intensity of SMEs, efficiency and social, political and equity justifications. The first criterion discussed by Hallberg(2000) is the share of firms and employment. From the data given in Tables 1,2,3 it is observed that the SSI sector in India has shown considerable growth from 1990-91 in terms of number of units, employment numbers, production and exports. Nearly 40% of India's G.D.P. is contributed by SSI sector. Although the employment numbers in this sector of economy could be high compared to production levels this could be explained as being due to the nature of product composition in India, as suggested by Hallberg (2000). The reservation policy of the Government of India in regard to production of consumer good items in smallscale sector could possibly contribute to large labour force working in SSI sector in India. Nearly 812 items of consumer goods are reserved for exclusive manufacturing by SSI sector and large labour force could be working in these sectors.

#### **MEANING OF SMALL SCALE INDUSTRIES --**

A small scale industry is an industrial undertaking in which the investment under fixed assets in plant and machinery or equipment, whether held on ownership term or on lease or hire purchase, does not exceed ₹ 10 crore for manufacturing enterprise and ₹ 5 crore for service enterprise. However, the investment limit changes overtime as prescribed by the government.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes:

1. Manufacturing Enterprises: The enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant and Machinery.

2. Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises is shown in Table I.

**Table I- Limit for investment in plant and machinery / equipment**

Enterprises	Investment in plant and machinery / equipment	
	Manufacturing Sector	Services sector
Micro	<Rs.25 lakh	< Rs. 10 lakh
small	>Rs. 25 lakh but <5crore Rs.	> Rs. 10 lakh but <2crore Rs.
medium	>Rs. 5crore but <10crore Rs.	> Rs. 2crore but <5crore Rs.

**Table II- Criteria of defining small business in various countries**

criterion	countries
Investment in plan and machinery	India,pakistan,indonesia
Investment and employment	Japan,korea,
Empolment and sales turnover	korea
Investment and sales turnover	malaysia
employment	USAandUK
Production sales turnover	China, U.K. (Commercial)

Source: Gupta C.B. & Khanka S.S., 'Entrepreneurship and Small Business Management (2010), Sultanchand & Sons, New Delhi, Page 24

The small scale industries in India whether in manufacturing sector or service sector are split up into five parts:

1. Manufacturing industries: These units are producing merchantable articles for direct consumption and also for processing industries, example: khadi industries, food processing industries, power looms, etc.
2. Ancillary industries: The ancillary industries produce parts and components for large industries.
3. Service industries: Service industries are known for covering all light repairs shop that is essential to maintain mechanical equipment. These industries completely depend on machinery.
4. Feeder industries: These industries produce certain specialised products like electroplating, casting, welding, etc.
5. Mining or Quarries: These industries caters the demand of different types of stones and minerals of the Indian and foreign Market.

#### **OBJECTIVE OF THE STUDY --**

1. To study the needs and importance of Small scale industries or MSME
2. To focus on the huge growth potential and opportunities available for SSI
3. To review the performance and challenges faced by SSIs in India

## OPPORTUNITIES AND PERFORMANCE OF SMALL SCALE INDUSTRIES

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labour-intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal role played by small-scale industries in India.

### 1. Origination of employment:

The elemental problem that is confronting the Indian economy is escalating pressure of population on land and needs to create enormous employment opportunities. This problem can be solved to a larger scale by the help of small-scale industries as small scale industries are labour intensive in nature and has shown an outstanding growth in the last decade.

The employment generation by SSIs is shown in Table III .

**Table III --. Employment generation by SSIs**

Year	2002 to 2003	2003 to 2004	2004 to 2005	2005 to 2006	2006 to 2007	2007 to 2008	2008 to 2009	2009 to 2010	2010 to 2011	2011 to 2012	2012 to 2013	2013 to 2014	2014 to 2015
Employment Generated (In Lakh)	260. 21	271. 42	282. 57	294. 91	805. 23	842. 00	880. 84	921. 79	965. 15	1011. 69	1061. 40	1114. 29	1171. 32
Growth %	--	4.31	4.11	4.37	173	4.57	4.61	4.65	4.70	4.82	4.91	4.96	5.12

SOURCES – Annual report Govt. of India, micro, small and medium enterprises 2012-13 and 15-16

### CHALLENGES FACED BY SSIs--

In spite of expedient contribution by the SSIs towards the Indian economy, SSIs does not get the indispensable support from the concerned Government departments, financial institutions, Banks, credit societies and corporate thus the SSIs are becoming handicap in the face of competition at national and international markets. The major problems faced by the SSIs are discussed below:

#### 1. Scanty credit assistance

Scanty and timely supply of credit is one of the major problems faced by SSIs in India. Scarcity of finance and weak creditworthiness is the main barrier for the development of SSIs in India. The creditworthiness of these small borrowers is generally weak and therefore they face unwilling creditors who may be persuading to lend only at high rate of interest.

#### 2. Uneven and poor quality of raw material

SSI units face extreme problems in procurement of raw materials whether from local or international market. The problems arise due to absence of sufficient quantity of raw materials, poor quality of raw material at exorbitant price. The entrepreneur of SSI units has lack of knowledge about the procurement from foreign market. Large scale industries enjoy economies of large scale operation hence can procure the quality raw material at very reasonable price, thus can sell the products at cheaper price as compared to SSIs.

### 3. Absence of organised marketing process

SSI units do not have any organised marketing process and even does not appoint any marketing organisation for marketing of products or services and hence their products compare unfavourably with the quality of the products of large scale industries. They suffer competitive disadvantages in comparison to large scale industries, as large scale industries infuse large amount of money on branding and promotion activities.

### 4. Inadequate infrastructure

Inadequate infrastructure is a major problem for the SSI units to grow and prosper. Most of the SSI units are located in semi-urban, urban and rural areas where the power supply is inadequate to run big machines, several times power cut off, and poor road connectivity. Thus absence of adequate infrastructure adversely affects the productive schedule of the enterprise leading to under-utilization of capacity. More over the machineries, equipments and technology employed by the SSIs are out dated, where the large scale organisation enjoys the competitive advantages.

### CONCLUSION –

The furtherance and advancement of SSIs is essential for the development of Indian economy to achieve impartial distribution of income and wealth, economic self-dependence and economic sustainable developments. To boost the SSI sector so that it can take deserved place in the growth mechanism of Indian economy, it is essential to support MSMEs by educating them to make optimum utilization of inbuilt capacity to be successful both under human and economic activity. Some appropriate measures to be taken by the government in providing financial assistance at minimum formalities, a platform to be built by government to help the MSMEs in procurement of quality raw material and train them for organized marketing process.

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