



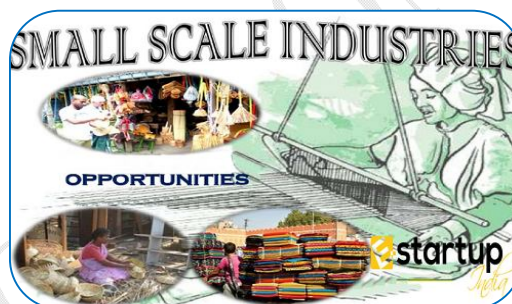
THE POSITIVE ROLE PLAYED BY SMALL SCALE INDUSTRIES IN STRENGTHENING INDIAN ECONOMIC SCENARIO

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ABSTRACT :

The author wants to highlight the importance and role played by the small scale industries in the development, empowerment and strengthening the economic scenario of India. Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour. In short, small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.



KEYWORDS : Industries, Capital Investment, Employment Potentialities, Partnership, Technology.

INTRODUCTION:

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition.

There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labour.

Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments.

Meaning:

(i) Small-Scale Industries: These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

(ii) Ancillary Industries: These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

(iii) Tiny Units: These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing,

repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located in towns with population less than 50,000.

(iv) Small-Scale Service Establishments: These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

(v) Household Industries: These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

Characteristics of Small-Scale Industries:

(i) Ownership:

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

(ii) Management and control:

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is actively involved in all the decisions concerning business.

(iii) Area of operation:

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

(iv) Technology:

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economies where capital is scarce and there is abundant supply of labour.

(v) Gestation period:

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

(vi) Flexibility:

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions.

They are more flexible to adopt changes like new method of production, introduction of new products etc.

(vii) Resources:

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

(viii) Dispersal of units:

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

OBJECTIVES OF SMALL SCALE INDUSTRIES:

The objectives of small scale industries are:

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilize and ensure optimum utilization of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.

7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

Problems faced by Small Scale Industries

Major problems faced by the small scale industries are :

(1) Finance (2) Raw Material (3) Idle Capacity (4) Technology (5) Marketing (6) Infrastructure (7) Under Utilization of Capacity (8) Project Planning

Small scale industries play a vital role in the economic development of our country.

This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

(1) Finance:

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources now are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

(2) Raw Material:

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

(3) Idle Capacity:

There is under utilization of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilization are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(4) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernize their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

(5) Marketing:

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(6) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unavailable.

(7) Under Utilisation of Capacity:

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

(8) Project Planning:

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

(9) Unskilled Manpower:

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers

may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

(10) Managerial:

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

SCOPE OF SMALL SCALE INDUSTRIES

Small entrepreneurs cover a wide range of business activities. The range of products manufactured by small-scale industries is very wide from baskets to precision electronic and optical instruments.

(1) Manufacturing Industries:

This type of small entrepreneurs is involved in producing complete articles used for direct consumption and also for processing industries.

(2) Village and Cottage Industries:

Village and cottage industries are industries which are carried on in homes of workers which we have designated as cottage industries.

(3) Handlooms and Handicrafts:

These industries cover artisans, skilled craftsmen and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 2 kW power less than 5 workers and no pollution is caused.

Handicrafts, toys, dolls, small plastic and paper products, electronic and electrical gadgets are some examples of these industries.

(4) Modern Small Entrepreneurs:

These industries are :

(a) Small Entrepreneurs:

According to Government of India, 2000, small scale industry is an undertaking having an investment in plant and machinery of not more than Rs. 1 corer.

(b) Ancillary Industries:

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 75 lacs (Government of India, 1991) engaged in

(i) the manufacture of parts components, sub-assemblies, tooling or intermediaries, or

(ii) the rendering of services supplying 30% of their production or services, as the case may be, to other units for production of other articles

(iii) Tiny Units: This refers to undertakings having fixed investment in plant and machinery not exceeding Rs. 5 lacs. These also include undertakings providing services such as laundry, zeroing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc.

(II) Trading Industries:

These types of small entrepreneurs are engaged in sale and purchase or exchange of goods and services. These industries act as middlemen between producers and consumers. This type of units includes wholesaler, retailer and commission agents.

(III) Service Industries:

These small entrepreneurs' establishments are engaged in personal or household services in rural areas and towns with population not exceeding 5 lacs and having fixed investment in plant and machinery not exceeding Rs. 2 lacs. These industries include:

(a) Professional services e.g. services of law, accounting medicine, consultancy etc.

(b) Commercial services e.g. transport, constructing warehousing, real estate, repair shops etc.

(c) Personal services e.g. fashion shops, dry cleaning restaurants, etc.

Advantages or Merits of Small Scale Industries

Small Scale Industries have always played an important role in the economic development of the country. The following are the merits of Small Scale Industries

1. Potential for large employment

Little Scale Industries can possibly make work openings on a monstrous scale. They are work serious in character. They utilize more work than different elements of creation. They can be set up in brief time and can give business chances to increasingly number of individuals. This is essential for a work plentiful nation like India.

2. Requirement of less capital

Little Scale Industries require less capital when contrasted with substantial scale enterprises. India is a capital rare nation and subsequently Small Scale Industries are progressively appropriate in the Indian setting. They can be begun and kept running by little business people who have constrained capital assets

3. Contribution to industrial output

Items made by Small Scale Industries structure a noteworthy segment of the modern yield of the nation. They produce various shopper products just as modern parts in substantial amounts and fulfill the necessities of purchasers. The customer merchandise delivered by Small Scale Industries are less expensive and fulfill the prerequisites of the more unfortunate segments.

4. Contribution to exports

Little Scale Industries contribute almost 40 percent to the modern fares of the nation. Items, for example, hosiery, knitwear, hand loom, pearls and gems, crafted works, coir items, materials, sports merchandise, completed cowhide, calfskin items, woollen pieces of clothing, prepared nourishment, synthetic concoctions and associated items and an extensive number of building products delivered by the SSI part contribute significantly to India's fares. Further items created by Small Scale Industries are utilized in the assembling of items fabricated and traded by vast scale ventures. Accordingly they contribute both legitimately and in a roundabout way to trades and win profitable outside trade.

5. Earning foreign exchange

Little Scale Industries procure significant outside trade for the nation by sending out items to various nations of the world. In the meantime, their imports are next to no thus there is less outside trade outgo. In this way Small Scale Industries are net remote trade workers. For example Little Scale

Industries in Tiruppur add to a generous segment of India's material fares and procure significant remote trade for the nation.

6. Equitable distribution

Vast scale businesses lead to disparities in pay dispersion and centralization of financial power. Be that as it may, little scale ventures appropriate assets and riches all the more evenhandedly. It is on the grounds that pay is conveyed among increasingly number of specialists since it is work escalated. This outcomes in both monetary and social welfare.

7. Use of domestic resources

Little Scale Industries utilize locally accessible assets in a beneficial way which would have generally gone waste. Little measures of investment funds which would have stayed inert is channelized into setting up of little ventures. This builds capital arrangement and interest in the economy.

8. Opportunities for entrepreneurship

Little Scale Industries give open doors for business people restricted capital. Setting up of a SSI requires less capital and lower interest in innovation and machines when contrasted with vast scale ventures. In this way little business people vehicle begin Small Scale Industries effectively and succeed. Japan which was crushed constantly World War turned into a noteworthy monetary power in view of numerous little business visionaries, who contributed enormously to the country's advancement.

9. Cost efficiency

Little scale units can embrace lean creation strategy, which offer better quality and more assortment at a lower cost. They can purchase more cost productive when contrasted with extensive scale units on the grounds that their costs are lower.

Government Policy towards Small Scale Industries

Some of the major incentives to small scale industries in India that deserves special mention are as follows:

An incentive is a motivational factor which induces a person to work hard or to do his work more efficiently.

Many incentives are provided both by the Central and State Governments to promote the growth of small-scale industries and also to protect them from the onslaught of the large-scale sector. Among the various incentives given to small-scale industries the following deserve special mention:

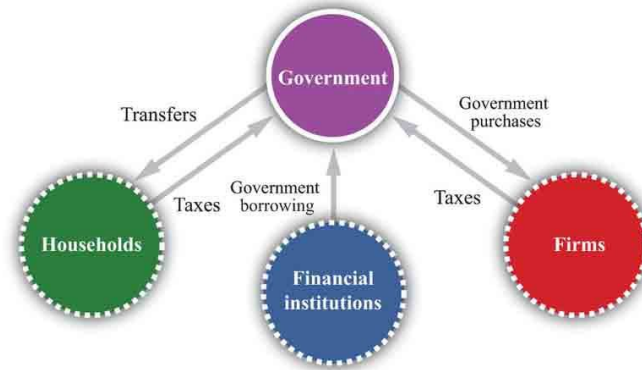
1. Reservation:

To protect the small-scale industries from the competition posed by large-scale industries, the Government has reserved the production of certain items exclusively for the small-scale sector. The number of items exclusively reserved for the small-scale sector has been considerably increased during the Five Year Plan Periods and now stands at 822.

However, prior to the 1997 - 98 Budget the number of items reserved for the small-scale sector stood at 836. The Finance Minister de-reserved 14 items in the 1997 - 98 Budget.

2. Preference in Government purchases:

The Government as well as Government organizations shows preference in procuring their requirements from the small-scale sector. For instance, the Director General of Supplies and Disposals purchases 400 items exclusively from the small-scale sector. The National Small-Scale Industries Corporation assists the SSI units in obtaining a greater share of Government and defense purchases.



3. Price preference:

The SSI units are given price preference up to a maximum of 15 per cent in respect of certain items purchased both from small-scale and large-scale units.

4. Supply of raw materials:

In order to ensure regular supply of raw materials, imported components and equipment's, the Government gives priority allocation to the small-scale sector as compared to the large-scale sector. Further, the Government has liberalised the import policy and streamlined the distribution of scarce raw materials.

5. Excise duty:

In respect of SSI units excise duty concessions are granted to both registered and unregistered units on a graded scale depending upon their production value. Full exemption is granted up to a production value of Rs.30 lakhs in a year and 75 % of normal duty is levied for production value exceeding Rs.30 lakhs but not exceeding Rs.75 lakhs. If the production value exceeds Rs.75 lakhs, normal rate of duty will be levied.

6. RBI's credit guarantee scheme:

In 1960, the RBI introduced a Credit Guarantee Scheme for small-scale industries. As per the Scheme, the RBI takes upon itself the role of a guarantee organisation for the advances which are left unpaid, including interest overdue and recoverable charges. This scheme covers not only working capital but also advances provided for the creation of fixed capital.

7. Financial assistance:

Small-scale industries are brought under the priority sector. As a result, financial assistance is provided to SSI units at concessional terms by commercial banks and other financial institutions. With a view to providing more financial assistance to the small-scale sector, several schemes have been introduced in the recent past the Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988.

SIDF provides refinance assistance to small-scale and cottage and village industries and the tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in the tiny/small-scale sector. In 1996, the small-scale sector received 42.3 per cent of the total priority sector advances from public sector banks.

8. Technical consultancy services:

The Small Industries Development Organisation, through its network of service and branch institutes, provides technical consultancy services to SSI units. In order to provide the necessary

technical input to rural industries, a Council for Advancement of Rural Technology was set up in October, 1982.

The Technical Consultancy Organization renders consultancy services to SSI units at a subsidized rate. Many financial institutions are also providing subsidies to SSI units for availing of consultancy services. For instance, small entrepreneurs proposing to set up rural, cottage, tiny or small-scale units, can get consultancy services at a low cost from the Technical Consultancy Organizations approved by the All-India and State-level financial institutions.

They have to pay only 20% of the fees charged by a technical consultancy organization. The entire balance of 80% or Rs.5, 000 whichever is lower is subsidized by the Industrial Finance Corporation of India.

9. Machinery on hire purchase basis:

The National Small Industries Corporation (NSIC) masterminds supply of apparatus on contract buy premise to SSI units, incorporating ancillaries situated in reverse regions which fit the bill for speculation endowment. The rate of interest charged in respect of technically qualified persons and entrepreneurs coming from backward areas are less than the amount charged to others. The earnest money payable by technically qualified persons and entrepreneurs from backward areas is 10% as against 15% in other cases.

10. Transport subsidy:

The Transport Subsidy Scheme, 1971 visualizes concede of a vehicle endowment to little scale units in those regions to the degree of 75 % of the vehicle cost of crude materials which are brought into and completed merchandise which are removed from the those zones.

National Small Industries Corporation

National Small Industries Corporation (NSIC), is an ISO 9001-2015 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through countrywide network of offices and Technical Centres in the Country. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower.

Mission: "To promote and support Micro, Small & Medium Enterprises (MSMEs) Sector" by providing integrated support services encompassing Marketing, Technology, Finance and other services.

Vision: "To be a premier Organization fostering the growth of Micro, Small and Medium Enterprises (MSMEs) Sector".

Schemes of NSIC

NSIC facilitates Micro, Small and Medium Enterprises with a set of specially tailored scheme to enhance their competitiveness. NSIC provides integrated support services under Marketing, Technology, Finance and other Support service.

Labour Policies

The Labour Policies for Small Scale Industries is governed by comprehensive laws. The following laws and policies are applicable for Small Scale Industries in India:

- Apprentices Act, 1961
- The Bidi and Cigar Workers (Conditions of Employment) Act, 1966
- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition & Regulation) Act, 1986
- The Children (Pledging of Labour) Act, 1933
- The Contract Labour (Regulation & Abolition) Act, 1970
- The Employees Provident Funds and Misc. Provisions Act, 1952
- Employees State Insurance Act, 1948

- Employers Liability Act, 1938
- Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
- Equal Remuneration Act, 1976
- The Factories Act, 1948
- The Industrial Disputes Act
- The Industrial Employment (Standing Orders) Act, 1946
- The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- Labour Laws (Exemption from Furnishing Returns & Maintaining Registers by Certain Establishments) Act, 1988
- Maternity Benefit Act, 1961
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- The Payment of Gratuity Act, 1972
- The Payment of Wages Act, 1936
- The Sales Promotion Employees (Conditions of Service) Act, 1976
- The Shops and Establishments Act, 1953
- The Trade Union Act, 1926
- Workmen's Compensation Act, 1923

CONCLUSION:

The Small-Scale Industries has acquired an important place in the socio-economic development of the country. The number of Small-Scale Industries stood at 28.03 lakhs in 1996-97 and increased to 34.64 lakhs in 2001-02. After the policy of liberalization and establishment of the WTO several challenges and new opportunities have grown for the Small-Scale Industries.

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