



## **AN ANALYSIS OF SMALL SCALE INDUSTRIES IN INDIA**

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The Small Scale Industrial (SSI) sector plays a significant role in boosting the country's industrial production, exports, employment and in creation an entrepreneurial base in the country. Despite tough competition from the large-scale sector, this sector has witnessed a high growth rate since 1947. The fast growth of the small scale industries is greatly significant in shaping our national economic policies. The growth of small sector has augmented the production of non-durable consumption goods meant for masses. This sector has smaller gestation period than the large-scale sector and it offers better scope for investment. Small scale industrial units are found all over the country and at first these cater to the local demands for goods, but gradually these extend their operations to meet the overall economic needs. Small scale industries contribute significantly to the overall economic development of our country. Such units require less capital, and create more employment opportunities for skilled, semi-skilled and unskilled workers.

Small scale industries need a lot of assistance to ensure rapid economic growth and development. The Industrial Policy 1991 was a very magnificent policy both for small scale industries and the economy on the whole. Various measures such as the policy of reservation, revision of invest ceilings, technological upgradation, marketing assistance, financial incentives etc. were undertaken by the govt. from time to time to promote the growth and safeguard the interests of this sector. In the post reform period, numerous steps such as raising investment limits, allowing foreign participation, establishment of growth centres, export promotion, marketing assistance and incentives for quality improvement were taken by the govt. of India.

With the investment of just 7 to 15% of the total manufacturing sector's capital, the small-scale industrial sector produces about 20% of the industrial output and provides

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employment to 35 to 40% of the workers in the industrial sector. Small scale industries outstrip large scale industries in terms of employment and output for each rupee worth of capital and fixed assets. The growth rate of the small scale sector has transcended the overall growth rate of the industrial sector since 1991. The positive trend is likely to be reinforced in the coming years, accelerating the economic amelioration. This growth has been recorded despite that the govt. intervention did not contribute to the growth of small-scale sector. Remarkable growth in the units falling within the ambit of Small Industries Development Organisation, has been witnessed yet there are certain deficiencies.(a)growth is concentrated in a few large cities and large town (b)Institutional credit has benefitted only a small percentage of small scale units (c) there are a lot of sick units and capacity remains under-utilized in many units. (d)modern small-scale sector is progressing, but traditional crafts and village industries are not progressing so well.

But the employment generating capacity of small sector is much higher than that of the large-scale sector, which is rated to be eight times the capacity of the latter.

Small-scale sector was accorded special importance in respect of creating addition employment with low capital investment in the Industrial Policy Resolutions of 1948 and 1956. The Central Small Scale Industries Organisation and Small Scale Industries Board were established by the Indian Govt. between 1954 and 1955.

In 1975 the limit of investment was escalated to Rs.10 lakh and Rs.15 lakh in small scale enterprises and ancillary industries respectively. Under the Industrial Policy Statement of 1980, this limit was enhanced to Rs.15 lakh, and in 1985 it shot up to Rs.35 lakh and Rs.45 lakh respectively. The investment limit was further spiked to Rs.60 lakh for small scale units and Rs.75 lakh for ancillary units in April 1991. Accepting the recommendation of the Abit Hussain Committee Report, the Govt. of India hiked the investment limit on plant and machinery form Rs.60 lakh to Rs.3 crore for small scale industries in 1997. Prior to 1975 those undertakings which had investment not exceeding Rs.7.5 lakh in fixed assets in plant and machinery and Rs.10 lakh in the case of ancillary units were treated as village and small industries sector.

Realizing that the small scale industries were particularly suitable for the better utilization of local resources and for achieving local self-sufficiency regarding certain types of industrial goods. The First Industrial Policy of 1948 assigned a central role to the small-scale industries. The policy in favour of cottage village and small industries took a vivid and

definite shape in 1956 when the govt. decided to take some steps to raise the competitive power of the small and village industries. The Second Policy Resolution of 1956 laid emphasis on the role of SSI sector in generating employment opportunities in mobilizing local skills and capital resources. This sector will gradually get integrated with the large industrial sector. Small-scale industries play a significant role in India's industrial and economic development. Under the Industrial Policy Statement of December, 1977, the concept of District Industrial Centres was introduced to provide a package of assistance and facilities for credit guidance, raw materials, training, marketing etc. to facilitate the smooth running of small scale industries.

The government established the National Commission on Enterprises in the unorganized sector to seek suggestions about policies and programmes to address various issues undermining the productive potential of a large numbers of unorganized micro and small productive units.

The office of Development Commissioner (Small Scale Industries), also known as the Small Industry Development Organization (SIDO) was set up in 1954. The main objective of this body was to assist the government in framing and implementing its policies and programmes. SIDO has played a significant role in the growth of the micro, small and medium enterprises through its nation-wide network of field organizations.

The government introduced an incentive scheme for quality improvement and environment management to improve the competitiveness of the small-scale sector.

Under MSMED Act, a Statutory National Board for Micro, Small and Medium enterprises is to be established and measures are to be taken to promote, develop and enhance competitive strength of such enterprises. Credit facilities, procurement preferences and provisions related to delayed payments are also to be created.

As compared to other developing countries, the percentage of those receiving vocational training in our country was very low. The active involvement of the Indian industry could help in creating demand-driven skill and also in tune with the emerging market opportunities. The Ministry intends to identify one production each block and to provide training to 100 boys and girls for it.

The Indian small-scale is opened to global competition in the wake of economic liberalization and market reforms. This sector can be prevented from turning sick only if its competitiveness is enhanced, considerably SSI needs support for 'promotion' not for

‘protection’ Small scale industries must upgrade their technologies and modern marketing techniques to meet the domestic as well as international competition. The small scale units should deploy that technology which may reduce costs and optimize output both in terms of quantity and quality. The govt. should take some necessary steps to acquaint the producers (SSI) with modern management practices to enable them to compete globally. Those small scale sector units which are out of performing should be given incentives in terms of priority in the availability of scarce raw materials, market assistance, certain rebates and concessions. Quality Control must be made mandatory in SSIs to capture a good share in the export market. Half-hearted approach to promote SSIs can’t field the desired results.

A comprehensive policy to address all the issues being faced by the small scale industries needs to be formulated to enable them to make substantial and sustainable contribution to national income, employment and exports. Realizing the importance of small-scale industries, the govt. should take all possible measures to empower them to face global competition. Manufacturing sector in India is going to dominate India’s economy and only an inclusive approach can lead the country to rapid and sustained growth. Small scale industries should contact the buyers and conduct market research to increase their sale by raising the quality of their products. Small scale industries have to suffer losses due to poor quality of products.

SSI entrepreneurs in India have to face a number of impediments. Electric power supply is erratic and very expensive. Taxes and import duties undermine productivity. The burden of indirect taxes also weakens their business prospects. Stringent labour laws also have a discouraging effect. The creation of Special Economic Zones will help tide over some of these obstacles.

A proper organizational structure is essential for the success of a SSI unit. The choice of proper customers paves the way for the success of the unit. The development heads should have full under-standing of the functioning of their developments. They should be in a position to handle routine problems in an efficient way. Rather than laying emphasis on subsidies, an enabling environment needs to be created. A cluster approach can yield better results. These units should be provided with infrastructure, information credit and support services of better quality at lower costs. Their effective management capacity should also be promoted.

The Economic Survey 2006-07 pointed out consumers need to be told that they will have to pay for utilities like power, drinking water, hospital services and higher education, asserting that subsidies were no longer sustainable. The competitiveness of such enterprises can be improved only if on a public-private partnership basis, such as establishment of mini-tool rooms, design clinics, providing marketing support, protection of Intellectual Property Rights, Credit facilities, wider use of IT tools etc. are taken. The creation of Brands can enable them to capture national and international markets.

At present SSI units raise loans from banks at high percent rate of interest. They are not given cheap loans due to high risk factors. In Japan small and medium enterprises are given loans at 2 percent rate of interest. The same pattern needs to be adopted in India also to maintain the viability of such units. The Credit to small units must be given at least one percent less rate (PLR) at which large corporates are given loans.

Industry associations should be encouraged to establish quality counseling and common testing facilities. Training for entrepreneurial development should be imparted. Foreign collaboration in small scale sector should be allowed to facilitate modernization technical upgradation, assistance for exports, setting up industrial estates etc. Infrastructural facilities should be created. All these measures will help boost the growth of small scale industries.

Raising the exemption for excise duty limit, granting credit linked capital subsidy, provisions for more composite loans etc. will also contribute to the growth of small-scale industries. In the past small scale sector were promoted and protected due to its low capital requirement, high employment potential, use of local resources, balanced regional growth and decentralization of economic power. SSI sector helps to expand export base, provide marketing facilities, enhance the base of entrepreneurial supply and promote self-employment, paving way for utilization of human resources.

With the reduction in the size of landholdings from an average of 2.7 hectares in 1960 to about one hectare now, surplus population engaged in the agriculture sector can be diverted to small-scale industries sector for gainful employment. Small scale sector has tremendous employment potential at low capital cost since labour intensity in this sector is four times more than in large enterprises.

### **Conclusion and Policy implications :-**

Human development, which is possible through healthy, educated, skilled and alert labour force, paves way for higher productivity. Human development calls for investment in people and an enabling macro economic environment. The govt. should launch economic programmes to reap the benefits of higher productivity facilitated at higher human development. India's economic growth should be defined by employment generating growth, equitable growth, participatory growth and sustainable growth to avoid lopsided development.

The small scale Industries has faced the challenges posed by liberalized economy successfully. New challenges and new opportunities came up before the small-scale sector with the opening of the economy. The govt. should provide incentives and assistance to the units in this sector to change challenges into opportunities.

Small-scale industries help to achieve equitable distribution of income and wealth, economic self-dependence and entrepreneurial development. These things are very essential for a developing country like India. Credit-related problems need to be addressed by opening more branches of SIDBI to cover all clusters, by expanding credit guarantee schemes. Special packages for the small and medium enterprises to subsidise credit to this sector are under consideration of the govt. At present banks charge high percent interest on loans from small-scale units. Interest rate should be low level.

State financial Corporations should conduct studies in their states to identify areas in which such industries can be established and project files should be prepared for them. This would help strengthen industrial growth of the country.

Moreover, both bankers and borrowers need to be educated in a more active way to facilitate timely and adequate flow of institutional credit.

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