



**AN IMPACT STUDY OF SMALL SCALE INDUSTRIES ON INDIAN ECONOMY:
A RELOOK IN TO GLOBALISED SCENARIO**

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Globalization is the integration of economies, industries, markets, culture and policy making around the world. It is the process of integrating the world in to an one huge market. Due to this process, many things are easily available to many people (without any trade barriers or restrictions) to their door steps. Globalization is a package of movement of capital, flow of finance, and trade in goods & services, it is the process of integrating country's economy in to the world economy. Globalization scenario in India has been seen due to the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank. Globalization has led to an 'Unequal Competition'- a competition between 'giant MNC's and dwarf Indian enterprises'. In India, Micro, Small and Medium Scale Industries is a core part of industrial sector; especially the small scale sector plays a significant role in terms of production, employment and exports. The present study examine the pre and post impact of LPG concept (Liberalization, Privatization and Globalization) on Small Scale Industries and evaluate its performance with reference to production, employment and exports. The study period is confined from 1965 to 2015. An average annual growth rates is used to compare their performance and the study is based on secondary information.

Keywords :- Exponential Growth, Globalization, Small Scale Industries, Production, Export and Employment.

INTRODUCTION

The role of small-scale industries in the economic development of India in recent years is critically analysed 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 a number of non-viable units is increasing steadily.

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 occupation - 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 for consumer goods.

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

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 India has 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 lld 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 effect 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 analysed in section 6. Finally, an analysis of the performance of SSI sector is undertaken in Section 7 and conclusions are drawn from this analysis.

LEGAL FRAMEWORK

The term small-scale industry used in India is a kind of misnomer. This term is used to indicate small sized industrial units and not small sized industries. The legal framework is provided by Industries Development and Regulation Act, 1951 (IDR ACT) Section IIB of this Act specifies the general requirement that are to be complied by the small-scale industrial units. The sub-section 11B(1) of I.D.R.Act defines small-scale industrial undertaking *"as an industrial undertaking which may be held on ownership terms, lease or hire purchase basis and the original investment in plant and machinery in that undertaking does not exceed the specified limit in force at the time."*

The SSI sector in India covers a wide spectrum of industrial units categorised under small, tiny and cottage segments. The term Small-scale Industry evokes different meaning to different agencies of the government in India. For example, the Planning Commission of the Government of India regards the Village and Small Industries (VSI) sector as a part of SSI sector. The Central Excise Department distinguishes SSIs on the basis of the turnover (Up to a maximum of Rs. 30 million). The legal nomenclature developed by the government is very complicated. This is evident from the many classes and sub-classes adopted in defining the small-scale industry. Further the rules relating to eligibility of industrial units as SSIs are also not very easy to interpret. The calculation of the value of plant and machinery depends on a number of things in addition to the price paid to the vendor. For example, cost of installation and inland transport charges paid in India are not included in value of plant and machinery whereas import duty and shipping charges on imported machinery are included. It is therefore very difficult to make a meaningful comparison or statistical analysis of SSI units in India based on the evolution of legal definition adopted by the Government of India.

Initially the capital assets were included as the basis of categorising a unit as a small scale unit. Since 1966 only the original value of plant and machinery is considered for the purpose of SSI classification. From 1966 to 1997, the limits on the value of plant and machinery, has consistently increased. But in 1998 this limit was considerably lowered to Rs.10 millions from Rs.30 millions. This was a period when the Government of India started a policy of economic rationalisation for small-scale industries, which is still continuing under pressure from World Trade Organisation. (Raju, 2001). Although the limit on the value of plant and machinery was lowered in 1998 the number of SSI units operating in India still increased in 1998-99. The growth rate in the number of SSI units however, declined in 1998-99 to 3.55% as compared to 5.5% in 1997-98 suggesting that the decrease in the growth rate of the number of SSI units could be due to the change in the eligibility criterion.

The percentage of net bank credit to SSI units from public sector banks has increased from 15.29% in 1995 to 17.33% in 1999 against a target of 16% set by Reserve Bank of India for public sector banks. Although the private sector banks and foreign banks are exempt from these regulations, the outstanding credit deployment to the SSI sector from private sector banks was at Rs.64.51 Billion at the end of March 1999 forming a share of 18.9% of their net credit.

Outstanding advances to SSI sector from foreign banks aggregated Rs.24.50Billion at the end of March 1999, accounting for 11% of their net bank credit.

POLICY INITIATIVES

The importance that the government attaches to SSI sector is reflected in the fact that a new ministry to deal exclusively with small and tiny industries was constituted in 1999. The policy initiatives taken by the Government in India and given in the annual report of Ministry of Small Scale Industries, 1999-2000 in regard to SSI sector can be divided into the following categories.

- Financial Concessions
- Reservations
- Infrastructure Support
- Training
- Technological Support
- Marketing and Export Promotion

Each of these policy initiatives is discussed in detail below.

a. Financial Concessions.

From time to time the SSI units have been given a number of financial concessions.

Some of the concessions currently available are: Excise exemptions for branded goods to units located in rural areas. General Excise exemption to industries such as those engaged in cotton yarn and glazed tiles, packaged tea. Increase in MODVAT Credits to manufacturing units.

The other fiscal incentives are by way of concession in credit to SSI units from banks.

Important changes in recent budget include:

Enhancement in the limit of composite loan from Rs. 200,000 to Rs. 500,000. Delegation of more powers to branch managers to grant ad-hoc facilities to the extent of 20% of limit sanctioned. Special training programs for branch managers. Opening of more SSI branches. Credit insurance scheme.

b. Reservation

The reservation of items of exclusive manufacture in SSI sector is statutorily provided for in Industries (Regulation and Development) Act. The reservation policy aims to ensure that the bulk of increased production of consumer goods is in the small-scale sector. The reservation policy also helps in expanding employment opportunities through setting up of more SSI units. 812 items are currently reserved for exclusive manufacture in SSI sector. Non-SSI units can undertake manufacture of reserved items only if they undertake 50% export obligations. There is no regulation or restrictions on marketing of reserved items by large units.

c. Infrastructure Support

The government has launched a program of infrastructure development in regional and rural areas. Infrastructure facilities like power, water, communications are funded by the government and SIDBI with the government providing equity and SIDBI providing the loans.

d. Training

The Small Industries Development Organisation, through its network of Small Industries Service Institutes is conducting training programs such as Entrepreneurship Development Programs for various target groups for generating employment and upgrading skills in industries such as hosiery, food products, leather products, herbal cosmetics etc. These trainees are given equity assistance and loans for setting SSI units.

e. Technology Support

SIDBI had set up a Technology Development and Modernisation Fund for direct assistance of Small-scale Industries to encourage existing industrial units in the sector, to modernise their production facilities and adopt improved and updated technology to strengthen their export capabilities. Assistance is available for meeting capital expenditures, acquisition of technical know how, upgrading of process technology.

f. Export promotion

Export promotion from the small-scale sector has been accorded a high priority in the India's export promotion strategy because export from this sector accounts for about 40% of total exports. Export strategy for SSI sector includes simplification of export procedures, providing export incentives, trainings and awards etc.

g. Credit Guarantee Scheme

The objective of the Credit Guarantee Scheme is to help the SSI units to access credit without the need for a collateral security from eligible financial institutions. The loan limit under the scheme is Rs.2.5 million. The Government of India and SIDBI, the apex development bank have set up a corpus fund of Rs.25 Billion. The fund, which is known as Credit Guarantee Fund Trust for Small Industries (CGTSI) helps in the availability of collateral free credit to the SSI sector. The Member Lending Institutions sanction credit to the eligible borrowers based on the viability of the projects and seek guarantee cover from CGTSI against the payment of one time guarantee fee 2.5% of the sanctioned credit facility and thereafter, annual service fee of 1% on the outstanding credit. CGTSI guarantees up to 75% of the credit subject to loan cap of Rs.2.5 million and

guarantee cap of Rs.1.875 million per borrower. The current trend in percentage of default is around 20% (Venkatsubramanyam, 2001).

The success of the guarantee scheme will get reflected only when Member Lending Institutions treat the guarantee scheme as an incentive to support the SSI units.

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 small scale sector could possibly contribute to large labour force working in SSI sector in India.

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