

GROWTH AND STRUCTURE OF SMALL SCALE INDUSTRIES IN INDIA

J. Sreenivasulu , S. RathnaKumari

Dept.of.Economics,S.V.University, Tirupati.A.P, INDIA

Abstract:The small scale sector plays a very important role in the socio- economic development of the country. It has significantly contributed to the overall growth in terms of the Gross Domestic Product (GDP) employment generation and exports. It contributes almost 40% of the gross industrial value added in the Indian economy and has been recognized as one of the most appropriate means of developing the industrial economy of the backward countries. Small scale industries facilitate the tapping of resources including entrepreneurship, capital, labour and raw materials. They can mobilize rural savings which may otherwise remain idle or may be spent on luxuries or channeled into non productive ventures.

The development of small scale sector has been important in India because the small scale units requires less capital outlay and at the same time provides more employment than the large scale sector. A small unit does not require highly sophisticated technology. It can therefore, be useful in backward areas where the people have yet to be trained to meet the challenge of sophisticated technology. The small scale industry has been given priority to generate more employment opportunities and to increase the income generation for bringing a transition in the development of the economy. It has also been pursued to promote the entrepreneurial talents to utilize local resources and factor endowments for increasing the output to meet the requirements for proving the quality of life of the people. The pursuit of economic liberalization and that of the industrial policy reforms envisages the technological capabilities and competitiveness. Institutional agencies have been setup for providing technical, infra-structural, financial and other services, and promotional measures providing the fiscal and financial concessions, subsidies, reservation of the products and priority in credit allocation have been adopted to augment the development of the small scale industrial units.

For establishing small scale industries the known new capital structure, employment generation, location the industrial belt and other aspects of Industrial establishment are a must for any prospective entrepreneurs. There seems to be no other go except establishing small scale industries where attempt would necessarily provide the opportunity for the optimum utilization of local resources to serve the local needs. The large scale industry is urban based. It has resulted in the neglect of agriculture and industry in the rural areas Small Scale Industrial development is a means of reducing the prevailing imbalances. It helps in accelerating process of overall development of the state.

Keyword: Growth of Small Scale Industrial units, Investment, Employment and Economic Development.

INTRODUCTION:

The small scale sector plays a very important role in the socio- economic development of the country. It has significantly contributed to the overall growth in terms of the Gross Domestic Product (GDP) employment generation and exports. It contributes almost 40% of the gross industrial value added in the Indian economy and has been recognized as one of the most appropriate means of developing the industrial economy of the backward countries. Small scale industries facilitate the tapping of resources including entrepreneurship, capital, labour and raw materials. They can mobilize rural savings which may otherwise remain idle or may be spent on luxuries or channeled into non productive ventures.

There are fairly labour intensive small scale industries which create employment opportunities at a relatively low capital cost. In India there is a basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population. They contribute significantly to the strengthening of the industrial structures. Small scale industries develop economy not only by their output of goods

but also by functioning as a nursery of entrepreneurial and managerial talent.

The development of small scale sector has been important in India because the small scale units requires less capital outlay and at the same time provides more employment than the large scale sector. A small unit does not require highly sophisticated technology. It can therefore, be useful in backward areas where the people have yet to be trained to meet the challenge of sophisticated technology.

The small scale industry has been given priority to generate more employment opportunities and to increase the income generation for bringing a transition in the development of the economy. It has also been pursued to promote the entrepreneurial talents to utilize local resources and factor endowments for increasing the output to meet the requirements for proving the quality of life of the people. The pursuit of economic liberalization and that of the industrial policy reforms envisages the technological capabilities and competitiveness. Institutional agencies have been setup for providing technical, infra-structural, financial and other services, and promotional measures providing the fiscal and financial concessions, subsidies, reservation of the products

and priority in credit allocation have been adopted to augment the development of the small scale industrial units.

For establishing small scale industries the known new capital structure, employment generation, location the industrial belt and other aspects of Industrial establishment are a must for any prospective entrepreneurs. There seems to be no other go except establishing small scale industries where attempt would necessarily provide the opportunity for the optimum utilization of local resources to serve the local needs.

The large scale industry is urban based. It has resulted in the neglect of agriculture and industry in the rural areas Small Scale Industrial development is a means of reducing the prevailing imbalances. It helps in accelerating process of overall development of the state.

DEFINITIONS

Definition of Micro, Small and Medium Enterprises changed over years with the changing circumstances and pressing problems of the Indian economy. Various institutions, government agencies, individuals had defined small industrial units in different ways.

i).Small Industrial Units (1948): The factory sector units registered under the Factories act of 1948 from organized sector. All traditional units and the remaining units of small industries segment not covered under the Factories Act of 1948 constitute the unorganized sector. Such units generally employ fewer than 10 workers, if power is used and fewer than 20 workers, if power is not used.

ii).Small Industrial Units (1966): The small enterprises definitions have changed for the capital investment, that is, the fixed capital investment is less than Rs.5 lakhs and ancillary units with a fixed capital investment of Rs.10 lakhs.
iii).Small Industrial Units (1972): The investment in fixed assets in plant and machinery whether held on ownership or by lease or by hire purchase not exceeding Rs.35 lakhs. In the same year Ancillary and Tiny Industries are those industries in which investment in plant and machinery doest not exceeded Rs.45 lakhs and Rs.2 lakh respectively.

iv).Small Industrial Units (1990): According to industrial policy statement 1990, the investment ceiling in plant and machinery for small industrial units (fixed in 1985) has been raised from Rs.35 lakhs to Rs.60 lakhs and, correspondingly, for ancillary units from Rs.45 lakhs to Rs.75 lakhs. The investment of tiny units has been increased from Rs.2 lakhs to Rs.5 lakhs. According to the modified definition, an ancillary unit is one which sells not less than 50 per cent of its manufactures to more industrial units.

v).The Union Budget 2002-03: The Union Finance Minister announced the change for the small industries definition i.e., enhancement of small industries investment ceiling for specified hosiery / hand tool items. The investment limit in plant and machinery with regard to industrial undertakings manufacturing specified items in the hosiery and hand tool sub-sectors was enhanced from Rs.1 crore to Rs.5 crores.

vi).Micro, Small and Medium Enterprises (MSME) Development Act, 2006

The Micro, Small and Medium Enterprises (MSME) sector has been recognised as an engine of growth

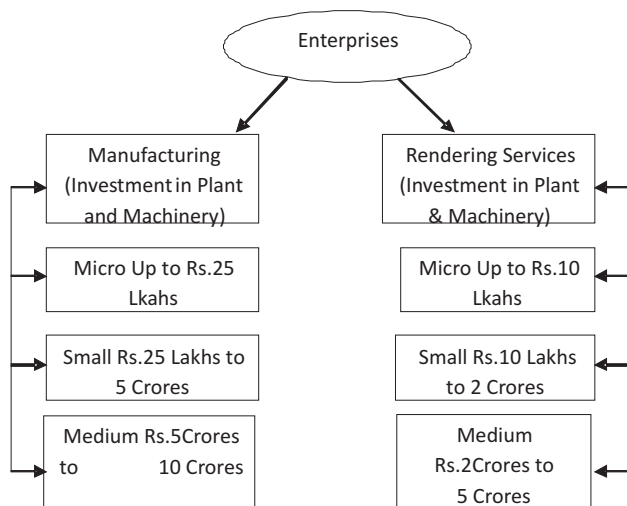
all over the world. Many countries have established a SME Development Agencies as the nodal agencies to coordinate and oversee all Government interventions in respect of the development of this sector. In India, the term Medium establishment has for the first time been defined in terms of a separate Act, governing the promotion and development of Micro, Small and Medium Enterprises (MSME). This came into force from 2nd October, 2006.

The Office of the Development Commissioner of Small Scale industries (SSI) was established in 1954 in India on the basis of the recommendations of Ford Foundation. Over the years, it has evolved into an agency for advocacy, hand holding and facilitation for the small industries sector. It has over 70 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centers. The Office of the Development Commissioner (MSME) provides a wide spectrum of services to the Micro, Small and Medium Industrial sector. Such as facilities for testing, toolmenting, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. The Office (MSME) provides economic information services and advises the Government in policy formulation for the promotion and development of the SSIs. The field offices also work as effective links between the Central and the State governments.

The MSME Act aims at facilitating the promotion and development of Small and Medium Enterprises as well as ensuring their competitiveness and flow of credit to them as well as minimizing instances of sickness among them. It empowers the Central government to notify programmes, guidelines and instructions for the promotion and growth of Micro, Small and Medium Enterprises. Under the Act, the Central government and the State governments may construct preference policies in respect of procurement of goods and services provided by such enterprises. In brief, the basic objective is to ensure the overall development of Micro, Small and Medium Enterprises.

The MSMEs are broadly classified into two: Manufacturing and Servicing. It is known fact that the service sector has the fast emerged and is becoming a good contributor to the economy. Therefore manufacturing and service sectors have been defined separately. The concept of "Enterprises" as against "Industries" has been brought in this Act.

Figure-1.2 Classification of Enterprises



Source: Salient Provision of MSMED Act, 2006.

OBJECTIVES OF SSI:

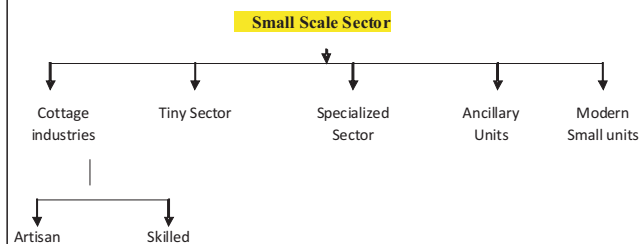
- The basic objectives of small scale industries are:
- 1.To create immediate and permanent employment on a large scale at a relatively small cost.
 - 2.To meet part of increased demand for consumer goods.
 - 3.To ensure better utilization of skills and capital available in the country.
 - 4.To facilitate mobilization of resources.
 - 5.To bring about integration of development of SSI – Rural Economy-Large scale Industry- Urban Economy.
 - 6.To ensure balanced and equitable distribution of growth and income.

Basically small industries do facilitate national development, by bringing about efficient utilization of natural, human and capital resources of the country for the achievement of pre-determined goals.

It would not be inappropriate to state that the objectives of small scale industries would be to make the country more self-reliant and self sufficient.

STRUCTURAL FEATURES OF SMALL SCALE INDUSTRIES IN INDIA

Small scale may be classified under three broad categories.



1.Some industries are started on small scale, but they are likely to develop into medium sized units with a short time. Like medium scale industries, there are capital intensive with

relatively large investments in block assets and generally in the corporate sector, organized as public or private limited companies as co-operative societies. In these concern, borrowed capital is higher than owned capital. These concerns are in an advantageous position to offer adequate security by way of block assets or stocks.

2.Under the Second Category some units started on a Small Scale and are likely to remain so for along time in view of the specialized nature of demand for their products thought specialized types of machines are required by this sector. They do not require any large scale investment in block assets. Generally there are organized as non- corporate concerns, partnership proprietary or joint family concerns. There concerns have little block assets to offer as security, though they maintain sufficient stocks. They do not have go Dow facilities, and their transactions are mostly on a small scale. Nor do they have sufficient credit raise finance on hypothecation from institutional agencies, for pledge arrangements are inconvenient to them.

3.The Third Category covers concerns which began as cottage industries but later developed into small scale industries or as feeder units to large scale industries. This group however forms the smallest segment among the small-scale industries, such concerns are mostly organized as proprietary or partnership concerns. Under these circumstances, finances, has to be provided primarily on the basic of judgment of the integrity and expertise of the management and not unnaturally, institutional agents are reluctant to meat their financial requirements, units producing toys, confectionery, coil springs, etc.,

SMALL SCALE INDUSTRIAL DEVELOPMENT POLICY

Policies constitute the framework or guidelines for appropriate decisions at varied levels. They generally consist of statement affect the working of a sector of the economy. The working of small scale industries, too, is molded by a number of policies which are the base for effective plan development.

The living standards of the people in the world vary considerably. Generally speaking, industrialized countries are known as developed countries in which industrial development is based on modern technology and research. The countries in which agriculture predominates are referred to as under-developed / developing countries. Under – developed countries are those where even agriculture is quite traditional. Developing countries have accepted mechanization as a way of life all along and have concentrated on developing large industries.

For a developing country like India, the growth of small scale industries is of great significance Apart from increased production, the growth of small scale industries helps to serve as an important milestone in the country's march towards industrial democracy. This movement has to be fostered by all-round efforts, so that a new class of talented entrepreneurs, endowed with initiative and enterprise, come to the fore-front, in this country.

The need for development of small scale, village and cottage industries has been the objective of the government

GROWTH AND STRUCTURE OF SMALL SCALE INDUSTRIES IN INDIA
J. Sreenivasulu , S. Rathnakumari

since Independence.

SMALL SCALE INDUSTRIES UNDER FIVE YEAR PLANS

The SSI units in various five-year plans have received varied assistance, such as marketing assistance, financial, tax exemptions, and subsidies and so on. Till independence, only village industries and rural industries or agro-based industries were considered to be small scale industries. The National planning Committee, set up in 1938 under the chairmanship of Pandit Jawaharlal Nehru, constituted a panel to study the development of small-scale industries. With the dawn of the planned era in the country, the government has been according promotion and protection for the growth and development of small scale industrial units.

Overview of MSME Sector

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The sector contributes significantly to manufacturing output, employment and exports of the country. In terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country. It is estimated to employ about 60 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides maximum opportunities for both self-employment and wage-employment, outside agriculture sector. MSME sector contributes not only to higher rate of economic growth but also in building an inclusive and sustainable society in innumerable ways through creation of non-farm livelihood at low cost, balanced regional development, gender & social balance, environmentally sustainable development and to top it all, recession proofing of economic growth, which the sector has proven time and again.

Recognizing the contribution and potential of the sector, Ministry of SSI has been rechristened as Ministry of MSME with a broader outlook to address the overarching policy issues relating to sustaining, developing and facilitating MSMEs. It was intended to create a dynamic and enabling MSME ecosystem that eases entry barriers, formulates proactive policy framework and creates a sound regulatory environment. With the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the concept of “enterprise” and a classification of enterprises on the basis of investment into Micro, Small and Medium were introduced.

While MSME sector continues to script an exciting success

story in India, there are inherent weaknesses and systemic failures which require bold policy initiatives and massive resource allocation. The sector is a blend of tradition and modernity with an alarming level of informal sector enterprises at the bottom of 'MSME Pyramid'. The process of liberalization and global market integration has opened up wide opportunities for the sector, as also new challenges. Transparent and efficient policy- regulatory frame work is the need of the hour. Government and other stakeholders should take concerted efforts to adopt bold strategies, best practices and progressive policy making to unleash MSME sector.

TABLAE:1

Plan-wise Allocation of Micro, Small and Medium Scale Industries (MSMEs)

The outlays for the development of Small Scale Industries in the successive Five year Plans are shown in the Table 3.1

(Rs.In Crores)

S.NO	Plan Period	Total Outlay	Allocation MSMEs to	Percentage share of MSMEs to total outlay
1.	1 st Plan(1951-56)	1,960	5.20	0.27
2.	2 nd Plan (1956-61)	4,672	56.00	1.20
3.	3 rd Plan(1961-66)	8,577	113.06	1.32
4	4 th Plan(1969-74)	15,779	96.19	0.61
5.	5 th Plan(1974-79)	39,426	221.74	0.56
6.	6 th Plan(1980-85)	1,09,292	616.10	0.56
7.	7 th Plan (1985-90)	1,80,000	1120.51	0.62
8.	8 th Plan(1992-97)	4,34,100	1629.55	0.66
9.	9 th Plan(1997-02)	8,59,200	4303.85	0.50
10	10 th Plan(2002-07)	18,65,700	5534.00	0.30
11	11 th Plan(2007-12)	10,96,890	10168.00	0.93

Source: 1. Government of India, Small Industries Development Organisation Annual Report, New Delhi,2011 2. Government of India, Ministry of Finance, Economic Survey-2010-11 3. Government of India, Eleventh Five Year Plan, Vol.1 Planning Commission, New Delhi,2007-12

It is noticed from the table 3.2 and diagram3.2 that allocation to MSMEs is highest Rs. 10168 crores in eleventh plan and lowest Rs.5.20 crores in first five year plan. The percentage share of MSMEs to total outlay is highest 1.32 in third plan and if is lowest 0.30 in tenth plans. From the table one can be observed that there are ups and downs with regard to total outlay as well as allocation to MSMEs. Growth and Structure of Small Scale Industries in India

The micro, small and medium enterprises (MSME) sector plays a significant role in the improvement of production, employment and exports of the country. This sector accounts for about 45 percent of manufacturing output and 40 percent of total exports of the country. This sector

employs about 60 million persons in over 26 million units throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector.

These are over 6000 products ranging from traditional to high-tech items which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide the maximum opportunities for the self employment and jobs after agriculture. The data on various economic parameters to evaluate the performance of this sector are presented in table 2.2.

Table 2
Growth of Micro, Small and Medium Enterprises (MSMEs) Sector in India During 1990-91 to 2010-11

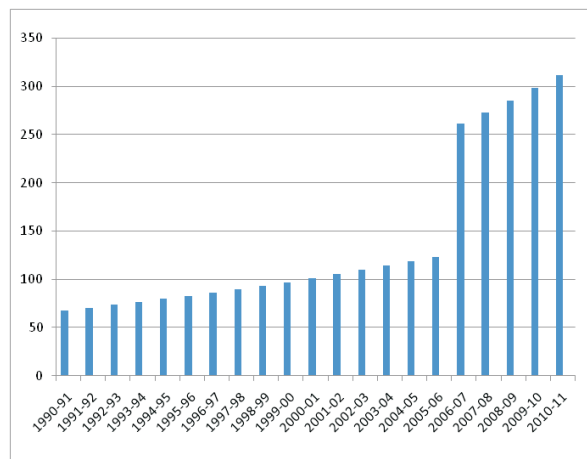
Year	Number of Total MSMEs (in lakh)	Fixed Investment (Rs. Crore)	Production (Rs. Crores)	Employment (Lakh persons)	Average Investment (3 + 2)	Average Production (4 + 2)	Average Employment (5 + 2)
1	2	3	4	5	6	7	8
1990-91	67.87	93555	78802	158.34	1378.44	1161.07	2.33
1991-92	70.63	100351	80615	166.99	1420.80	1141.37	2.36
1992-93	73.51	109623	84413	174.84	1491.27	1148.32	2.38
1993-94	76.49	115797	98796	182.64	1513.88	1291.62	2.39
1994-95	79.60	123790	122154	191.40	1555.15	1534.60	2.40
1995-96	82.84	125750	147712	197.93	1517.99	1783.10	2.39
1996-97	86.21	130560	167805	205.86	1514.44	1946.47	2.39
1997-98	89.71	133242	187217	213.16	1485.25	2086.91	2.38
1998-99	93.36	135482	210454	220.55	1451.18	2254.22	2.36
1999-00	97.15	139982	233760	229.10	1440.89	2406.18	2.36
2000-01	101.1	146845	261297	238.73	1452.47	2584.54	2.36
2001-02	105.21	154389	282270	249.33	1467.44	2682.92	2.37
2002-03	109.49	162317	314850	260.21	1482.48	2875.61	2.38
2003-04	113.95	170219	364547	271.42	1493.80	3199.18	2.38

2004-05	118.59	178699	429796	282.57	1506.86	3624.22	2.38
2005-06	123.42	188113	497842	294.91	1524.17	4033.72	2.39
2006-07	261.01	500758	709398	594.61	1918.54	2717.90	2.28
2007-08	272.79	558190	790759	626.34	2046.23	2898.78	2.30
2008-09	285.16	621753	880805	659.35	2180.37	3088.81	2.31
2009-10	298.10	693835	982919	695.38	2327.52	3297.28	2.33
2010-11	311.52	773487	1095758	732.17	2482.94	3517.46	2.35
Mean	138.94	255082.71	381998.52	325.99			
CV	61.84	86.71	83.77	60.48			
LGR	8.49	11.34	12.45	8.35			
CGR	7.7	9.9	13.7	7.6			
t-value	7.097**	6.058**	10.388**	7.238**			

Source: 1 Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises (MSMEs), Govt. of India. 2. www.indiastat.com. ** Significant at 1 per cent level

Note: The data for the period up to 2005-06 are only for small scale industries (MSMES). Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being compiled.

Fig:1 Growth of Micro, Small and Medium Enterprises (MSMEs) Sector in India during 1990-91 to 2010-11



Source: 1 Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises (MSMEs), Govt. of India. 2. www.indiastat.com. ** Significant at 1 per cent level

It can be observed from table 2 and figure 1 shows that the number of MSMEs have increased from 67.87 lakh units in 1990-91 to 311.52 lakh units by 2010-11. During the reform period, the growth of MSME units has been gradual and steady which is evident from the increase from 97.15 lakh units in 1999-2000 to 311.52 lakh units in 2010-2011. There has been a steady growth in investment, production and employment during 2010-2011 over 1990-91. The fixed investment and production increased from Rs.93,555 crore and Rs.78,802 crore in 1990-91 to Rs.773487 crore and Rs.1095758 crore in 2010-11 respectively at current prices. There has been a steady increase of employment of MSMEs. The employment in MSMEs increased from 158.34 lakh in 1990-91 to 732.17 lakh during 2010-11 respectively. Thus, significant at 1 per cent level progress has been achieved by MSMEs in India during the last two decades as indicated by linear growth rate, compound growth rate and 't' values.

REFERENCES

1. Government of India, Second Five Years Plan, Planning Commission, 1955-56 to 1960-61, New Delhi.
2. Government of India, Third Five Year Plan, Planning Commission, 1960-61 to 1965-66, New Delhi.
3. Government of India, Fourth Five Year Plan, Planning Commission, New Delhi.
4. Government of India, Sixth Five Year Plan, Planning Commission, 1980-85 and Fifth Plan (draft) 1974-79, New Delhi.
5. Government of India, Sixth Five Year Plan, Planning Commission, 1980-85, New Delhi.
6. Ibid., p.188.
7. Government of India, Seventh Five Year Plan, Planning Commission, 1985-90, New Delhi.

GROWTH AND STRUCTURE OF SMALL SCALE INDUSTRIES IN INDIA
J. Sreentivasulu , S. Rathnakumari

8. Government of India, Seventh Five Year Plan, Planning Commission, 1985-90, pp.99-111.
9. Government of India, Eighth Five Year Plan, Planning Commission, 1992-97, New Delhi, p.132-134.
10. Government of India, Ninth & Tenth Five Year Plan, Planning Commission, 1997-2002, New Delhi.
11. Government of India, Tenth Five Year Plan, Planning Commission, 2002-2007, New Delhi.
12. Ibid, pp.49-55.
13. Small Industry Development Organization, Annual Reports, 1988-89, p.18.
14. Government of India, Ministry of Small Scale Industries, New Delhi, 2002, pp.53-54.
15. Dr.K.Kamala Kannan and Dr.N.Narnasivayam "Incentives for Small Scale Industries", Third Concept, February 2007, p.30.
16. SIDO Annual Report, 2006-2007, www.smallindustries.com
17. Hand Book of Industrial Policy of Statistics 2003-05 and 2010-11 Development of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, New Delhi.
18. "Special Group of Targeting Ten Million Employment Opportunities Per Year", Planning Commission, Government of India, New Delhi, May 2002, p.60.
19. V.S.Varshyneya, "Bank Nationalization and After", Yojana, 1986, July 16-31, p.4. .
20. P.D.Ojha, "Banking and Economic Development in India: Problems and Prospects", Reserve Bank of India Bulletin, Jan, 1987, p.14.
21. Report of the Study Group to Frame Guideline for Follow-up of Bank Credit, Bombay, Reserve Bank of India, 1975.
22. Ibid., p.69.
23. Report of the Working Group to Review the System of Cash Credit, Bombay, Reserve Bank of India, 1979, p.1.
24. Reserve Bank of India Bulletin, Bombay: Nov.1992, pp.1881-1885.