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Research Paper Management

A Case Study on Growth Prospects and Challenges of Small Scale Industries in India

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ABSTRACT

The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. By less capital intensive and high labour absorption nature, SSI sector has made significant contribution to employment generation and also rural industrialization. Under the changing economic scenario, SSI has to face number of diverse problems like vast population, large scale un-employment and underemployment and scarcity of capital resources Hence, the government has been providing some special facilities through different policies and programmes to overcome the problems and for the growth and development of small scale industries. The efforts of the government have resulted in the phenomenal increase in the number of units in the small scale sector.

KEYWORDS :

The Small scale Industries Board define the SSI "A Unit employing less then 50 persons, if using power and less then 100 person without the use of power, and with a capital assets not exceeding Rs. 5 lakhs . The employment criterion was dropped in the year 1960 and a small-scale industrial unit was defined in terms on investment in fixed assets only. The Ministry of commerce and Industries defined a small scale industries as "A Unit with a capital investment of not more than Rs. 5 lakhs irrespective of the number of person employed" and in case of Ancillary units. The definition of small- scale industries was get modified again in 1966. The Ministry of industry defined a small scale industries as follows "An Undertaking having capital investment in plant and machinery of not more than 10 lakhs and Rs. 15 lakhs in case of Ancillary units. The Government of India, in its new Policy Initiative for Small Scale industry announced in 1990 -2000 has change the investment limits for Small Scale industries from Rs. 1 crore . The Definition of Village industry has been changed the capital investment ceiling from Rs. 15,000 to Rs. 1 lakh .

Small and Medium Enterprise:
Small and Medium Enterprise Units with investment in Plant and Machinery in excess of SSI limit and upto Rs.10 crore may be treated as medium enterprises. The Micro, Small and Medium Enterprise Development Act 2006 has changed in the concepts of small scale industries. Enterprises engaged in the Manufacturing/ Production of the goods. Enterprises engaged in providing/ rendering services.

Manufacturing Enterprise :
Manufacturing Enterprise The Manufacturing Entreprise has been defined in terms of investment in plant and machinery. A unit is called Micro Enterprise if the Investment is upto Rs. 15 lakhs . As for Small Enterprise, the investment should be above Rs. 25 lakhs and upto Rs. 5 crores . And for Medium Enterprise the investment should be above Rs. 5 crore and upto Rs.10 Crores .

Service Enterprise :
Service Enterprise For a Micro Enterprise, the ceiling on investment is of Rs. 10 lakhs . Small Enterprise it is more than Rs. 10 lakhs and upto Rs. 2 crore . . In Respect of medium enterprise, the investment should be in the range of Rs. 2 crore or Rs. 5 crore .

Indian economy is an under developed economy. Its vast resources are either unutilized or underutilized. A major section of man power is lying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The output is insufficient and the basic needs of the people remain unfulfilled. [1]

Industrialization is the only answer to this present state of disrupted economy. The problem is of the approach which should be direct, utilitarian and pragmatic. Such industries do not require huge capital and hence suitable for a country like India. The small scale industries have a talent of „dispersal." they can be accessible to the remote rural areas of the country and do not lead to regional imbalances and concentration of industries at one place, which is responsible for many economic resources such as entrepreneurship and capital. [2]

Small scale industries were not given such importance during the British rule as is given today. We now have a pragmatic approach to the concept in view of the prevailing economic conditions, gradual industrial development and the difficulties that arise in the implementation of planned programs. [3] Prof. K.T. Sash was the first Indian economist, who realizing the importance of Small scale industries in India, tried to give a workable definition of these industries. He defined "A small scale or cottage industry may be defined as an enterprise or series of operations carried on by a workman skilled in the craft on his responsibility, the finished product of which, he markets himself.[4] Rethnam N.V., in his study entitled, "Rural Industrialization and IRDP" opined that infrastructure development for industrialization in the rural areas and investment in basic services designed to realize the full potential of human resources in the rural areas should receive a high priority. [5]

Various organizations for assisting Small and Medium Entrepreneurs
Various organizations have been set up by the Central and State governments and banks to support the development of the small scale enterprises. The main organizations are as follows: –

A. Central Government
Small Industries Development Organization (SIDO). National Small Industries Corporation Limited. (NSIC). National Institute for Micro, Small and Medium Enterprises (NIMSME).

B. State Government
District Industries Centers (DIC) State Financial Corporations (SFCs) State Industrial Development Corporations/ State Industrial Investment Corporations(SIDC/SIIC) State Small Industries Development Corporation (SSIDC) Khadi and Village Industries Commission (KVIC).

C .Financial Institutions / Banks
Small Industries Development Bank of India (SIDBI) Commercial Banks Regional Rural Banks Cooperative Banks National Bank for Agriculture and Rural Development (NABARD)

D. Organizations promoted by the Government/ Banks/ Financial Institutions
Technical Consultancy Organization in various states. India SME Technology Services Ltd. SIDBI Venture Capital Ltd. Credit Guarantee Fund Trust for Micro and Small Industries India SME Asset Reconstructing Company (ISARC).

E. Industry Associations
Consortium of Women Entrepreneurs in India (CWEI) Confederation of Indian Industry Federation of Indian Chamber of Commerce and Industries (FICCI) Associated Chamber of Commerce and Industries in India (ASSOCHAM) World Association of Small and Medium Enterprises (WASME) Federation of Association of Small Scale Industries (FASSI).

Growth rates of SSI sector

Year Year	Growth rates of 1970 base IIP	Growth Rates of 2001-02 base IIP	Growth rates of manufacturing sector with base year 1993-94
2002-03	7.68%	8.68%	3
2003-04	8.59%	9.64%	7.4
2004-05	9.96%	10.88%	9.2
2005-06	10.40%	12.32%	9.1

Source: Ministry of Small Scale Industries.

It may be seen that the overall industrial growth rate of the small Scale Industries sector hiked during the year 2005-06 as compared to the year 2004-05. This shows that the SSI sector has also consistently registered a higher growth rate as compared to the overall manufacturing sector.

Contribution of SSI in the Gross Domestic Product (GDP) Year

Year	Total industrial production	Gross Domestic Product (GDP)
1999-2000	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.80	5.82

Source: Ibid

It may be seen that overall contribution of small scale industries from 1999-2000 to 2003-2004 is similar in Indian economy.

Growth of SSIs in India

Year	SSI Units (Lakh in no.)	Investments (rs. In crores)	Production (rs. In crores)	Employment (Lakh Persons)	Export (in crores)
2004-05	118.59	178699	429796	282.57	124417
2005-06	123.42	188113	497842	294.91	150242
2006-07	261.01	500758	709398	594.61	182538
2007-08	272.79	558190	790759	626.34	202017
2008-09	285.16	621753	880805	659.35	NA

Source: MSME annual reports 2009-2010 accessed from http//www.msme.gov.in

Health of units in SSI sector in India

Reasons for sickness	Registered SSI	Unregistered SSI
Lack of Demand	71.6 %	84.1 %
Shortage of Working Capital	48.0 %	47.1 %
Marketing Problems	44.5 %	41.2 %
Power Shortage	21.4 %	14.8 %
Non-availability of Raw Material	15.1 %	15.2 %
Equipment Problems	10.6 %	12.9 %
Labour Problems	7.4 %	5.1 %
Management Problems	5.5%	5.1%

Source:" Final results: Third All India Census of SSI 2001-2007, 2004, Ministry of SSI, GOI

Problems of Small and Medium Enterprises

The identified problems in U.P. are summarized as: –

I. Project Implementation related problems

Non– availability of land at the selected site. Non– availability/ difficulty in procuring construction materials like cement steel etc. Delay in delivery of machines Difficulties/delay in tying up financial arrangements with other financial institutions and banks. Inability of the promoters to bring in funds to the extent proposed. Delay in disbursement of assistance due to non– compliance of the major terms and

II. Production related problems

Non– availability of raw materials or increase in the price of raw materials without a corresponding increase in sale price of the products. Non– availability of important infrastructure facilities like power, water, transport etc. Unsatisfactory performance of certain machines resulting in low production due to lack of routine and preventive maintenance leading to frequent breakdown. Lack of coordination between marketing and production planning.

III. Finance related problems

Low promoters contribution. High debt– equity ratio leading to high interest burden. Inadequate bank finance. Lack of proper follow up action for realization of debts.

Recommendations and Strategies for revival of SSIs in India

- Simple financing structure should be available to SSIs so that they can grow in the competitive era.
- SSIs should develop their capabilities in manufacturing to meet the quality, technology and services in global economy.
- FDI in SSI should be allowed 100 percent by Govt. so that technology transfers, tax benefits can be availed properly by SSIs.
- Research institutions and academicians should be facilitated to encourage working in collaboration to improve SSIs capabilities.
- SSI and Cottage industries should be encouraged to grow and become competitive.

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