



Importance of Small Scale Industries in the Economic Development of India

KEYWORDS

Financial Economics, Small-Scale Industries, Indian Economy, Globalization, Liberalization, Gross Domestic Product, Industrial Policy Resolutions

Subrahmanya K C

Asst Professor, Dept of Management studies Global Academy of Technology, Rajarajeshwarinagar, Ideal Homes Township, Off Mysore Road, Bangalore – 560098

Pavan K U

Asst Professor, Dept of Management studies Global Academy of Technology, Rajarajeshwarinagar, Ideal Homes Township, Off Mysore Road, Bangalore – 560098

ABSTRACT *It is no doubt that India witnessed phenomenal economic development in the past two decades. It is also amply clear that this growth was fuelled by enormous growth of SSI. The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. The small scale industries sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45% of the manufacturing output and 40% of the total exports of the country.*

INTRODUCTION:

In most of the developing countries like India, Small Scale Industries (SSI) constitutes an important and crucial segment of the industrial sector. They play an important role in employment creation, resource utilization and income generation and helping to promote changes in a gradual and phased manner. They have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. The reasons are obvious.

The scarcity of capital in India severely limits the number of non-farm jobs that can be created because investment costs per job are high in large and medium industries. An effective development policy has to attempt to increase the use of labour, relative to capital to the extent that it is economically efficient.

Small scale enterprises are generally more labour intensive than larger organizations. As a matter of fact, small scale sector has now emerged as a dynamic and vibrant sector for the Indian economy in recent years. It has attracted so much attention not only from industrial planners and economists but also from sociologists, administrators and politicians.

DEFINITION OF SMALL SCALE INDUSTRY:

Defining small-scale industry is a difficult task because the definition of small-scale industry varies from country to country and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

- Every country has set its own parameters in defining small-scale sector. Generally, small-scale sector is defined in terms of investment ceilings on the original value of the installed plant and machinery. But in the earlier times the definition was based on employment. In the Indian context, the parameters are as follows.
- The Fiscal Commission, Government of India, New Delhi, 1950, for the first time defined a small-scale industry as, one which is operated mainly with hired labour usually 10 to 50 hands.
- Fixed capital investment in a unit has also been adopted as the other criteria to make a distinction between small-scale and large-scale industries. This limit is being con-

tinuously raised up wards by government.

Objectives

The main objectives of the study are:

- To study the trends and growth of small scale industry in India during the post liberalization period.
- To characterize the trends in inputs, output and other related variables in small scale Industry in India in order to bring out the growth in the Industry.
- To examine the relative contributions of labour and capital in output growth in India.

Growth:

A small scale industry (SSI) is an industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership term or on lease or hire purchase, does not exceed Rs. 1Crore. However, this investment limit is varied by the Government from time to time.

The Small Scale Industry is an enterprise whose employee count and revenue falls below certain levels. Small Scale Industries in India provide job opportunity to more than 65 million people. Internationally SMEs report for 98% of business statistics and are accountable for triggering originality and competition.

Entrepreneurs in small scale sector are normally not required to obtain a license either from the Central Government or the State Government for setting up units in any part of the country. Registration of a small scale unit is also not compulsory. But, its registration with the State Directorate or Commissioner of Industries or DIC's makes the unit eligible for availing different types of Government assistance like financial assistance from the Department of Industries, medium and long term loans from State Financial Corporations and other commercial banks, machinery on hire-purchase basis from the National Small Industries Corporation, etc. Registration is also an essential requirement for getting benefits of special schemes for promotion of SSI viz. Credit guarantee Scheme, Capital subsidy, reduced custom duty on selected items, ISO-9000 Certification reimbursement & several other benefits provided by the State Government.

Industrialization plays a crucial role in directing the develop-

ment process of the country for accelerating growth and progress in every sphere. For developing economies, especially India, which is a labor abundant country, small-scale sector is considered as the major source of employment generation and foreign exchange earnings. Small-Scale Industries (SSI) require small investments, so the entrepreneurs can afford to take risks. Over the past 50 years, the small-scale sector has contributed significantly towards building a stable and sound national economy. This sector has contributed around 39% to the country's manufacturing output, 34% to its exports and provided employment to around 31.2 million people.

In India, a small and medium enterprise (SME) is a generic term used to describe small scale industrial (SSI) units and medium-scale industrial units. Any industrial unit with a total investment in its fixed assets or leased assets or hire-purchase asset up to Rs 1 crore is considered as a SSI unit.

The SME sector produces a wide range of industrial products such as food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute, hemp & jute products, wood & wood products, furniture and fixtures, paper & paper products, printing publishing and allied industries, machinery, machines, apparatus, appliances and electrical machinery. SME sector also has a large number of service industries.

Flow of credit to SSI sector:

In view of the above, Banks have consequently been advised by RBI vide its circular dated 16.10.2000 to take following measures with immediate effect:

Banks may, while sanctioning/renewing credit limits to their large corporate borrowers - (having working capital limits of Rs.10 crore and above from the banking system), fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from SSIs either on cash basis or on bill basis.

The size of such sub-limits may be decided taking into account the projected purchases by corporate borrowers from the SSIs during a year in relation to their total purchases and other relevant factors.

Further, with a view to ensuring availability of adequate balance in the account for meeting the payment obligations to SSI units, banks may ensure that sale proceeds/ other receipts of the borrower are credited to this account on a pro rata basis.

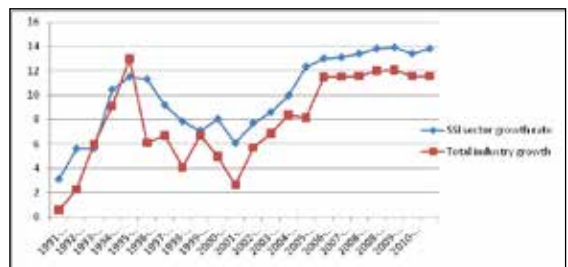
Importance of SSIs in India

SSI is one of the significant segments of the Indian economy, contributing about 7 per cent to the Indian GDP and providing employment to over 28 million people. The Indian SME segments current production value is almost Rs 816,000 crore. It contributes to around 40% of industrial production & exports. It manufactures more than 8,000 diverse products, ranging from low-tech items to technologically-advanced products. The SSI sector targets both domestic as well global markets. SSIs sector is recognized as the engine of growth, accounting for about 70% of employment and contributes a significant amount for the growth of GDP. Globally, 99.7 per cent of all enterprises in the world are SMEs and the balance 0.3 per cent is large-scale enterprises. By contrast, the SSI sector in India accounts for 95 per cent of all industrial units.

Production growth of SSI Sector in Comparison to Overall Industrial Sector

Year	SSI sector growth rate	Total industry growth
1991-92	3.1	0.6
1992-93	5.6	2.3
1993-94	5.65	6

1994-95	10.44	9.1
1995-96	11.49	13
1996-97	11.29	6.1
1997-98	9.19	6.7
1998-99	7.84	4.1
1999-00	7.09	6.7
2000-01	8.04	5
2001-02	6.06	2.7
2002-03	7.7	5.7
2003-04	8.6	6.9
2004-05	9.96	8.4
2005-06	12.32	8.15
2006-07	13.0	11.51
2007-08	13.1	11.52
2008-09	13.4	11.58
2008-09	13.8	12.00
2009-10	13.9	12.05
2010-11	13.4	11.58
2011-12	13.8	11.58



Note: Up to 2004-05 are based on 1993-94 prices, 2005-06 and 2006-07 are based on 1999-2000 prices.

Source: Ministry of Micro, small and Medium Enterprise, Government of India.

The small scale industries sector grew rapidly over the last two decades. This high growth requires a special mention, when we compare with the growth rate of the total industrial sector. The small scale sector has maintained a higher rate of growth than the overall industrial sector in the country. For instance, if we consider the period 1991-92 to 2006-07, except for 1993-94 and 1995-96, the growth rate of the SSI sector has surpassed the overall industrial growth. Though the period of shift to a liberalized regime happened to be the low growth years due to the foreign exchange shortage, credit crunch and high interest rates, the SSI sector regained growth momentum afterwards. The high growth rate in the recent years is to be viewed in the context of a world – wide recession, and its impact on the economy.

Conclusion:

From the foregoing analysis one may derive the following conclusions which seem to be most relevant that could be taken as a guideline for the future view.

In most of the developing countries like India, Small Scale Industries (SSI) constitutes an important and crucial segment of the industrial sector. They play an important role in employment creation, resource utilization and income generation and helping to promote changes in a gradual and phased manner. They have been given an important place

in the framework of Indian planning since beginning both for economic and ideological reasons. The reasons are obvious.

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Small scale enterprises are generally more labour intensive than larger organizations. As a matter of fact, small scale sector has now emerged as a dynamic and vibrant sector for the

Indian economy in recent years. It has attracted so much attention not only from industrial planners and economists but also from sociologists, administrators and politicians.

The small scale industries sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 59 million persons in over 26 million units throughout the country. SSI sector plays a major role in India's present export performance 45 to 50 percent of the Indian exports are contributed by SSI sector.

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