



Small Scale Industry in Gujarat: Sickness and Development Strategy

KEYWORDS

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The role played by the small scale industry in the economic activity of advanced industrialised countries is significant. Many Nations, both developed and developing exteriorized that the small industry sector is a useful vehicle for growth, in the later for the creation of new employment opportunities on a wide scale in the shortest possible time.

The small scale sector is a significant contributor to the Indian economy. Based on official figures from the Ministry of MSME, 2008, this sector contributes 8% of National GDP, comprises 50% of India's total manufactured exports, 45% of India's total industrial employment and 95% of all industrial units. Despite numerous policy measures during the past four decades, Indian small scale units have remained mostly tiny, technologically backward and lacking in competitive strength. Notwithstanding their lack of competitive strength, small scale industrial units in India could survive due to product and geographical market segmentation and policy protection.

The business environment has been changing drastically in the recent times in view of the policy of liberalisation and globalisation. A major challenge before the industrial sector is the competitiveness. All industrial units, small or large have to sustain themselves in their own competitive strength by successfully facing competition in market economies. This situation has resulted into sickness in the industry. This paper attempts to understand this sickness in the SSI sector in Gujarat.

Of the total SSI units suffering from sickness Gujarat has around 7% of the total units.

Review of literature

Many studies have been carried out to study the sickness in the SSI sector. Chand (2008) examine the growth, efficiency, causes of sickness of small scale industries, emergence of entrepreneurs at Larkana estate areas of Sindh province and the educational background of the entrepreneurs of small scale industries and its impact on the growth of sales of the every year. The study found that owners of small industries units are family concern and having a low educational background, lack of managerial knowledge and conservation oriented attitude results in under utilization of capacity and low growth of units established every year. This study indicates effective policy measures to promote small scale industries in Larkana region and in Pakistan.

Jajri (2009) examine the technical progress and labour productivity in small and medium scale industry in Malaysia. This study used annual time series data on capital, labour and value added output of manufacturing industries, the period 1984-2005. This study used the output oriented model of DEA mamliquist. The results of this study reveal that between 1984-2005 total factor productivity growth of the Malaysian manufacturing industries for the entire test period was negative due to negative contribution from technical progress. It reveal that only four industries, namely food & beverages, wood products, rubber products and chemical industries experienced positive total factor productivity growth. The remaining industries suffered a declining total factor productivity growth over the time period. The result

reflect that technical efficiency does not depend on the capital intensity because some of these industries are high capital intensive, on the other hand, industries that are more labour intensive like food & beverage was very efficient.

Kumar and Singh (2009) conducted a study on small scale electrical machinery and parts of industry in Punjab, to investigate the growth pattern and productivity trends of these industries. The growth of the industry has been measured in terms of number of units, fixed investment, direct employment and production. Productivity trends have been sketched in terms of capital output ratio and partial factor productivity. The results reveal that liberalisation has provided a boost to mechanisation, lowered capital output ratio and enhanced factor productivities but has failed in employment generation.

Though these studies attempt to examine various causes of SSI sector. But these studies do not attempt to understand the role of financial institutions in the revival of these industries.

Objectives of study

1. To examine the growth of sickness of SSI in Gujarat.
2. To examine the source of finance in Gujarat vis and vis India.

Source of Data

In the present study an attempt has been made to assess the sickness of small scale industries in Gujarat, during 2000-2007-08. The data have been obtained from various published and unpublished reports during 2000-2008 from commissioner of industries and statistical abstract of Gujarat and India.

Table 1
Small scale industries in Gujarat

Year	AGR of Registered Factories	AGR of closed units	% of closed units	AGR of employment
1985	--	--	11.88	---
1990	4.45	-12.31	13.72	7.02
1991	4.22	20.45	16.51	1.75
1995	9.08	9.93	17.58	1.61
1996	5.27	0.38	16.72	2.04
1997	2.94	20.47	20.40	1.36
1998	3.82	13.46	22.68	0.63
1999	1.29	0.47	22.49	0.48
2000	3.06	4.34	22.79	0.24
2001	2.34	26.54	30.30	-11.46
2002	2.92	0.41	29.54	4.64
2003	2.27	-0.97	28.59	6.96
2004	3.69	-0.64	27.36	5.40
2005	1.53	-1.97	26.42	5.29
2006	3.61	9.17	28.04	5.77
2007	3.77	4.32	28.20	5.02
2008	3.45	5.43	28.79	6.98

As is shown in the above table that the growth of SSI was as high as 9% per annum during 1995. However, during the recent times, the rate of growth of SSI has declined and has been between 2-4% per annum. During the recent times, despite government policy to encourage the growth of SSI, the growth of SSI has not only been low but has also declined compared to the previous years. In absolute terms, the number of SSI units has risen from 14861 in 1985 to 33621 in 2008.

During the initial years, the employment did not grow at significant rate and the rate of growth of employment was not more than 2% per annum. In fact, during some of the years, the employment even declined. During 1989, it was more than 8% per annum. During the 1990s, the rate of growth of employment in SSI improved and was positive during the entire decade. Barring the year 2001, the rate of growth of employment in SSI has been positive and has been improving over the years. In the recent times, the SSI sector in Gujarat is labour absorbing. This is a positive sign for a labour abundant country. Thus, growth of SSI has resulted into growth of employment. From the point of view of policy perspective, SSI should be encouraged in a labour surplus economy such as India.

However, one disturbing aspect of growth of SSI is the rising sickness and closing down of the units. As is shown in the data that the number of closed units has increased over the years. The percentage of closed units as proportion of total registered units has been increasing over the years. During the 1980s and 1990s, this percentage was between 11% to 20%. The cause of concern is the growing percent of units as proportion of total registered units, which is more than 25% during the recent times. Hence, on the one hand, the SSI sector is becoming labour intensive and on the other, there is a trend towards closure of the units.

As is shown in the table that during the entire period from 2001 to 2008 the percentage of units closed has been high compared to the previous years. Compared to All India during 2000 the % share of sick industrial units in Gujarat was 1.94% which has grown in 2008 to 3.54%. However, when one looks at the data then in absolute terms, the number of sick industrial units has declined from 5928 in the year 2000 to 3017 in 2008. The relative increase in the proportion of sick units is due to a sharp decline in the number of sick units in the country but in case of Gujarat, the pace of decline in sickness in industrial units has not been so. There can be several reasons for this closure. One of these reasons is the availability of finance. Here, an attempt has been made to understand the role of financial institutions in the growth of SSI units in the state.

Table 2 Sickness of Small Scale Industries in India and Gujarat (2000-2008)

years	India	Gujarat	% share of Gujarat SSI in all India.	Yearly Fluctuation in Sickness of SSI Gujarat (%)
2000	304235	5928	1.94	-
2001	249630	5408	2.16	-8.77
2002	177336	6679	3.76	23.50
2003	167980	4723	2.81	-29.28
2004	138811	4180	3.01	-11.49
2005	138041	3461	2.50	-17.20
2007	114132	3350	2.93	-3.20
2008	85187	3017	3.54	-9.94

Source: Gujaratstat.com

Table 3 Loans and Advances of Public Sector Banks to Small Scale Industries in Gujarat (2001 to 2006) Rs. in crore

Year	Gujarat	India	% share of Gujarat loans in India	Growth rate of SSI in India	Growth rate of SSI in Gujarat
2001	3353	48395.05	6.92
2002	3064	54265.05	5.64	18.50	08.61
2003	2982	52646.1	5.66	00.31	02.67
2004	2982	56155.1	5.31	06.24	0.0
2005	3488	62695.2	5.56	04.76	16.96
2006	4720	82436.3	5.72	02.91	35.32

In case of loans and advances of public sector banks to SSI in Gujarat during 2000 to 2006 we can see that percentage share of Gujarat loans in India was higher during 2001 i.e. 6.92% and lowest during 2004 i.e. 5.31%. Over the years, the share of loans to SSI in Gujarat has been declining. But the growth of SSI has been much higher compared to all India. In fact, during the year 2005 and 2006, the growth of SSI has been significantly high compared to all India. Hence, the SSI sector in Gujarat has been flourishing in Gujarat after 2005 despite declining role of the banks. This is a positive sign for the state.

Conclusion

For the development of small scale industry appropriate finance is the main requirement. After the liberalization and globalization of Indian economy various multinational have started his business in the India. In this situation to compete with MNCs there is a need to provide adequate infrastructure and financial assistance to the small-scale industries. For this purpose central government and state government has established various financial institutions with the objectives of to provide financial and other assistance to medium and small-scale industries of India.

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