Indian Five-Year Plans and Small Scale Industries

Commerce

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Parameshwara — Assistant Professor, Department of studies and research in commerce, Mangalore University, Mangalagangotri- 574199

Dr. A.Raghurama — Professor, Department of studies and research in commerce, Mangalore University, Mangalagangotri- 574199

ABSTRACT

Small Scale Industry (SSI) is recognised by the Government of India as a priority sector, as it paves way for rapid industrialisation. Small industry is a prerequisite for balanced growth of the economy like India. Government of India encourages the development of Small Scale Industry by considering the economic development of the country. SSI promotes production activity, employment generation and export earnings. Government supports the SSIs through various schemes and financial support through various banks and financial institutions. Various committees were formed for the development of SSIs and huge financial support is given in various five year plans. In spite of encouragement and support from the government many SSIs facing the problem of finance and many banks experiencing increase in NPA. Various debt recovery mechanisms must be strengthened and financial support should be given to SSIs by following aggressive assessment methods. This paper includes the gist of five year plans from first five year plan 1951-1956 to twelfth five year plan 2012-2017.

Small Scale Industry (SSI) is recognised by the Government of India as a priority sector, as it paves way for rapid industrialisation. The SSI sector is an important component of industrial base of India and can be the driving force of its development efforts. Small industry is a prerequisite for balanced growth of the economy like India, which is highly populated. Small scale industries include the traditional small industries besides the modern small scale industries. The most significant aspect of small industry development is that this sector has stimulated economic activity to far reaching height. The promotion and development of SSI sector, underline twin objectives, namely, employment generation and poverty alleviation. The small sector to a significant level is performing its part well in providing employment and thereby alleviation of poverty. It has created a sense of confidence among the small industrialists and the policy makers to rely on its strength.

After independence, the Government of India committed itself to a policy of Planned Economic Development of the Country. Accordingly in April 1951, the First Five-Year Plan came into existence. So far, twelve Five-Year Plans and Six Annual Plans have been implemented and all the plans have received due emphasis to develop villages and SSIs.

First Plan (1951-56) treated the village and SSIs as a conjunct to the development of agriculture. The central theme was that with the development of this sector excessive pressure on agriculture which had proved harmful for decades could be considerably reduced. During this plan, the Cottage Industries Board, that was set up in 1947, split into three boards: All India Handloom Board, All India Handicrafts Board and All India Khadi and Village Industries Board. In addition, three more boards were set up. These were the SSIs Board, Coir Board and Central Silk Board. These boards together constituted the organizational structure through which the promotional and development efforts of the government were to be carried out. In addition, four Regional Small Industries Services Institutions, with a number of branches, were also set up to provide technical assistance to the SSIs. This plan envisaged an outlay of Rs.43 crore (i.e., 2.2% of the total plan outlay and 43.9% of the total industrial outlay) for the development of village and SSIs. Out of the allocated amount, Rs.30 crore (69.8% of the allocated amount) was spent on village and SSIs.

Second Plan (1956-61), emphasis was laid on the development of SSIs and ancillaries to large-scale industries and on organizing industrial cooperatives. The programs of Industrial Estates, initiated in 1955 was extended and about 60 industrial estates were set up to provide factory accommodation and a number of common facilities like power, water, transport, etc., at one place. The production of certain items was reserved to small-scale sector and assistance to SSIs in different forms such as credit, training facilities, technical advice, supply of improved tools and equipment on easy terms, etc., was extended. An amount of Rs.180 crore (3.9% of the total plan outlay and 16.1% of the total industrial outlay) was allocated for the development of SSIs. But the actual expenditure incurred during the plan was Rs.175 crore (97.2% of the allocated amount).

Third Plan (1961-66), the main objectives of the small industries program were to improve productivity of the worker to enlarge the availability of institutional finance, and to pay special attention to the growth of small industries in rural areas and small towns. The three Annual Plans (1966-67, 1967-68, and 1968-69) also witnessed the development of a number of industrial estates. A provision of Rs.264 crore (3.1% of the total plan outlay and 13.2% of the total industrial outlay) was made for the development of SSIs in the Third Plan and Rs.240 crore (90.0% of the allocated amount) was spent for the growth of this sector whereas Rs.126 crore was proposed for three Annual Plans, i.e., 2.1% of the total plan outlay and 8.7% of the total industrial outlay.

Fourth Plan (1969-74) stated that, "The main aim of the development programs for SSIs was fuller utilization of the capacity already established, intensive development of selected industries including ancillaries and industrial cooperatives and subject to the criteria of feasibility promotion of industries in semi-urban, rural and backward areas". It was also proposed to undertake a phased program of modernization of machinery and equipment for a group of selected industries. The list of items reserved for production in the small-scale sector increased from 180 to 340. During this plan, an amount of Rs.293 crore (1.8% of the total plan outlay and 9.3% of the total industrial outlay) was earmarked for the growth of villages and SSIs and Rs.251 crore (87.7% of the allocated amount) was spent on this sector.

Fifth Plan (1974-79) adopted an approach to reach as large a proportion of traditional artisans as possible who belong mostly to socially backward and economically vulnerable sections of the community and ensure the continued and fuller employment in their present occupations with a view to preventing their displacement from the existing crafts. Besides, it was emphasized that small-scale entrepreneurs should get all facilities under the same roof. Accordingly, setting up of District Industry Center was recommended for the development and growth of small-scale and village industries. The number of reserved items again increased to 807. The Fifth Plan allocated Rs.510 crore (1.3% of the total plan outlay and 5.2% of the total industrial outlay) for the development of village and SSIs. But out of this, only Rs.387 crore (75.9% of the allocated amount) was spent on this sector. During the Annual Plan, 1979-80, 75% of the amount allocated (Rs.192 crore out of Rs.256 crore) was spent which stood at 2.1% of the plan outlay and 9.7% of the industry outlay respectively.

Sixth plan (1980-85) emphasized the need for revitalization of traditional industries and raising their productivity by up gradation of skills and techniques. A positive effort was made to disperse these industries over a wide area, particularly in the rural and semi urban areas. The definition of SSIs and ancillaries was also revised. The plan also set the growth target of 8% per annum in respect of the output of the village and SSIs. An amount of Rs 1780 crore (1.4% of the total outlay and 11.9% of the industrial outlay) was earmarked for growth of village and SSIs and expenditure of Rs1410 crore i.e., 79.2% of the total amount allocated was incurred on this sector

Seventh plan (1985-90) accorded greater emphasis on rationalization of fiscal regime to ensure rapid growth of villages and SSIs infrastructure facilities were to be strengthened at various levels. Adoption of modern management techniques was to be encouraged. Development and dissemination of appropriate technology to reduce drudgery, improve productivity and quality, and lessen the dependence on subsidies received due emphasis. Initiative to be taken to improve wage levels, enhance earnings and continuity of employment so that artistic skills do not become extinct. Measures were to be taken to adopt coherent marketing strategies both for internal and export markets. This plan made a provision of Rs 2752 crore (1.5% of the total outlay and 12.3% of the industrial outlay) to village and SSI sector. However the actual expenditure during the plan was estimated at Rs 3249 core. The two annual plans 1990-91and 1991-92) also spent Rs1819.1 crore, i.e. 1.5% of the total outlay on development of this sector. During these annual plans the industrial policy liberalized the licensing and the products manufactured by the SSIs were exempted from compulsory licensing. The industrial growth was good at 8.3% during 1990-91 but went negative, i.e., 0.1% in 1991-92.

Eighth plan (1992-97) aimed at a comprehensive review of laws and procedures and to simplify them so that entrepreneurs would be able to concentrate on efficient running of their units. It underlined the importance of adequate availability of credit rather than concessional credit. It also realized the need the need to encourage Industry Associations to form marketing organizations, which, besides marketing would go into the quality aspect of products. An amount of Rs 6334 crore, i.e., 1.5% of the total outlay was allocated for the development of villages and SSIs. However, the actual expenditure was Rs 7265.7 crore, i.e., 1.48% of the total outlay.

Ninth Plan (1997-2002) underlined the need to review the list of reserved items of the small sector as well as to enhance the investment limit to this sector. It also pointed out the major problems faced by the SSI sector like inadequate flow of credit, use of absolute technology and equipment, poor quality standards and inadequate infrastructural facilities. To increases the flow of credit, the government has started setting up specialized branches of banks exclusively meant for providing credit to SSIs. SIDBI has already set up a Technology Development and Modernization Fund (TDF) with a corpus fund of Rs 200 crore. The government also set up Technology Trust Funds with contributions from the state governments and industry associations for transfer and acquisition of latest technologies. The scheme of Integrated Infrastructure Development centre (IIDC), initiated in the eighth plan continued during the ninth plan with more incentives and financial assistance. Besides the government took a number of policy initiatives like allowing 24% equity participation to large and medium units in SSIs, the simplification of procedures and labour laws pertaining to SSI units, and the enhancement of investment limit from Rs 60 lakh to Rs 3 crore for the SSIs and from Rs 5 lakh to Rs 25 lakh for the tiny industries. However the investment limit of Rs 3 crore was revised to Rs 1 crore in 1999-2000.

Tenth Plan (2002-2007) target of 10% industrial growth has not been met, but there was acceleration in the industrial growth rate during the Plan period and the target was exceeded in the terminal year. The CAGR rose from 4.5% in the Ninth Five Year Plan to 8% in the Tenth Five Year Plan. Manufacturing showed particular dynamism, the CAGR rising from 3.8% in the Ninth Five Year Plan to 8.7% in the Tenth Five Year Plan. The annual growth rate of manufacturing rose consistently during the period, registering 12.3% in 2006–07. For the first time in many years, industrial growth at 11% equalled the growth rate in services, with manufacturing outstripping both. After having reached a high of 13.53% in 1995–96, the rate of GCF in manufacturing as a percentage of GDP at market price showed a declining trend, bottoming out in the terminal year of the Ninth Plan. The Tenth Five Year Plan period saw a striking reversal of trend from the outset and in 2005–06 it had increased to 13.6%. Registered manufacturing showed a higher level of GCF rising from 3.8% in 2001–02 to 10.4% in 2005–06

Eleventh Plan (2007 – 2012): The 11th plan would aim at raising the rate of growth of the industrial sector to 10 per cent and manufacturing growth to 12 per cent per annum. Continuing commitment to priority lending for MSMEs remains an essential feature of development banking. The 11th plan must ensure that the policies are sufficiently flexible to support the development of micro finance. In the 11th plan, the strategy for manufacturing proposed by the National Manufacturing Competitive Council (NMCC), which includes the following initiatives, should be operationalised:

- Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote and be consistent with the unified national market, so that the Indian Industry can reap the benefit of economies of scale and scope.
- While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.
- Technological modernization will be the key to high industrial growth.
- State Governments should take steps to create an investor friendly climate, providing a

Single Window Clearance of applications for the establishment of industrial units.

- Labour-intensive mass manufacturing based on relatively lower skill levels provides an Opportunity to expand employment in the industrial sector.
- The policy of progressive de-reservation of industries for small scale, production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the 11th Plan at an accelerated pace.
- Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.
- The existing incentive programmes such those available for the North-East, J&K, Himachal Pradesh and Uttaranchal need to reviewed with a view to assessing their impact on industrialization in these areas.
- The industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises (MSMEs).

The 11th Plan will place special emphasis on infrastructure and skill formation. Competition is the best guarantee of consumer protection and should be strongly encouraged. It needs to be ensured that the un-registered small enterprises and units outside the co-operative fold are also able to benefit from Government schemes. A cluster approach can help increase viability by providing these units with infrastructure and support services of better quality at lower costs. All entry barriers should be removed and business risks for start-ups mitigated, the latter, interalia, through a large number of well-managed business incubators in the identified thrust areas of manufacturing. In order to improve the competitiveness of MSMEs, schemes for establishment of mini tool rooms, setting up of design clinics and providing marketing support should be innovated on public private partnership (PPP) basis. There should be special focus on the services sector, so that it's potential to create employment and growth is fully realized. Under the 11th plan, there should be two kinds of schemes –one focusing on the lives of small firm workers, artisans and craft people and other on their livelihood. One of the important tasks of the 11th Plan would be to review the position regarding the availability of timely and adequate credit (both term loan and working capital) to small and medium enterprises from commercial banks and other financial institutions and suggest measures to eliminate the shortcomings that are noticed. It can be observed that the number of MSMEs have increased from 67.87 lakh units in 1990-91 to 311.52 lakh units in 2010-11. There has been a steady growth in investments production employment and exports during 2010-11 over 1990-91. The investment and production increased from Rs. 93,555 crore and 78,802 core in 1990-91 to Rs. 7, 73,487 crore and Rs. 10, 95,758 crore in 2010- 2011 respectively at current prices. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 158.34 lakh in 1990-91 to 732.17 lakh during 2010-2011.

12th Plan for MSME Growth

The Report of the Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017) has made some important recommendations to make MSME sector a vital part in the country's growth story. The sector is a blend of tradition and modern, with 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. The new ambitious National Manufacturing Policy, which aims to make India a manufacturing hub and increase the sectoral share of manufacturing in GDP to 25 per cent in the next decade from the present level of 15-16 per cent, requires substantial support from MSME sector and quantum jump in the growth rate of MSME sector from the existing level of 12-13 % per annum. This necessitates convergence of efforts and resources.

The key issue is of capacity building of Small Business Service providers to become efficient and pro-active agents of change. This requires convergence of Sound Macro-economic policies, Seamless Institutional Structures, Outcome based performance indicators; Performance based funding, Good Governance - Transparency and Accountability Systems, Independent Monitoring and Evaluation, Effective participation by target beneficiaries.

The Working Group has pointed out the following issues that obstruct rapid growth of MSMEs: Regulation, Technology, Credit & Finance, Orthodox Marketing, Skills, Dated Institutional Framework, Advocacy and Empowerment, Transparency. The Group recommends that during the 12th Plan period, modular industrial estates with plug and play facilities in the respective areas may be launched as pilot projects. For providing starting capital, globally angel/venture fund are the prime source of funds to the Start Ups. While these funds finance a project on the basis of their own risk analysis and valuation, the Groups opines that Government can provide some comfort which could be in the form of a guarantee or by co-investment through a Government promoted venture fund. The venture capital fund launched by SIDBI can play major role in this regard.

According to the Group, instead of launching a separate scheme for the start-ups, it may be appropriate to address the above issues under the respective verticals. Setting up of the modular estates has been taken up under the Infrastructure vertical and financing mechanism under the Credit & Finance vertical. As mentioned, IPR related issues are to be taken up by the IP facilitation centers which may be appropriately funded under NMCP component of Technology vertical. However, a Cell in the office of DC (MSME) may be formed to function as a single window for the start ups.

The Working Group recommends following broad allocations during 12th Plan Period for all proposed interventions under major verticals as well as in KVI and Coir Sector.

S. No.	Vertical	Projected BE for 12th Plan (Rs in cr.)
1	Credit & Finance	19450
2	Technology Up gradation	9500
3	Infrastructure Development	11360
4	Marketing & Procurement	2110
5	Skill Development & Training	3600
6	Institutional Structure	3100
7	Khadi & Village Industries Sector	14800
8	Coir Sector	870
Total		64790

Conclusion: Government of India encourages the development of Small Scale Industry by considering the economic development of the country. SSI promotes production activity, employment generation and export earnings. Government supports the SSIs through various schemes and financial support through various banks and financial institutions. Various committees were formed for the development of SSIs and huge financial support is given in various five year plans. In spite of encouragement and support from the government many SSIs facing the problem of finance and many banks experiencing increase in NPA. Various debt recovery mechanisms must be strengthened and financial support should be given to SSIs by following aggressive assessment methods.

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