

Emerging Opportunities and Challenges For Small Scale Industries in an Emerging Indian Economy



Economics

KEYWORDS : Small Scale Industries, Growth rate and Economic Development.

Mr. NARRA NAGARAJU

M.A-ECONOMICS, DEPARTMENT OF ECONOMICS, KAKATIYA UNIVERSITY

ABSTRACT

The small-scale sector occupies a position of prominence in the Indian economy, contributing to more than 50% of the industrial production in value addition terms. The sector accounts for one third of the export revenue and employs the largest manpower next to agriculture. In India's present liberalized economy, the survival and growth of small-scale industry (SSI) largely depends on its ability to innovate, improve operational efficiency and increase productivity. The role of small-scale industries in the economic development of India in recent years is critically analyzed in this paper. Various factors affecting the growth and development of small-scale industries and the problem faced by this vital sector of Indian economy is examined. The contribution of small-scale industries in employment growth, production, export promotion and other economic indicators are discussed. Conclusions drawn from the analysis of the data suggest that the various policy initiatives taken by the Government of India since independence have helped this sector to grow considerably. Some of the policies of the Government of India may, however, not be very helpful in increasing the efficiency of units in this sector as number of non-viable units is increasing steadily.

Small scale industries play a vital role in the development of economy, mainly in developing countries. If population of India is taken into consideration it can be said that this sector has a wide scope in India. If small scale industrial sector is developed other economy related problems can be dissolved automatically. But these have to face so many problems while competing with other large scale industries. If these problems are solved or efforts are taken to foster these challenges this sector can prove itself as a developing engine.

INTRODUCTION:

The Small-Scale Industries (SSI) has a crucial role in a developing economy like India. They play a strategic role in the progress of the country. These industries by and large represent a stage in economic transition from traditional segments to modern segments. The traditional nature of this process is reflected in the diversities of these industries. Some small scale units employ simple skills and mechanism while many other units use modern and sophisticated technology. Now, our economy is facing a challenge of economic growth. It has to accelerate the productivity of many important areas like agriculture and industry by improving their techniques of production. SSIs have been assigned to fulfill these expectations in more economic and diversified way.

SSIs constitute an important part of the Indian economic structure. They integrate a continuing element in the scheme of national planning. They are a strategic part of the Indian economy as well as a progressive and effective decentralized sector, which is closely related with agriculture and medium and large-scale industries. The whole scheme of a socialistic pattern of society with employment for all rests on the decentralization and wide distribution of economic activity, entrepreneurship and economic advantages. The basic social philosophy underlying Indian Planning is to develop medium and large scale sector only to take advantage of modern technology. Over the rest of the field, SSIs will be encouraged to play their active role. If there is change in scale, that has to be developed with the help of mutual co-operation, both horizontal and vertical.

Thus, small and large-scale industries are two legs of industrialization process of a country. Hence, small-scale industries are found in existence in every country. Small-scale industries have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. Today, India operates the largest and oldest programmes for the development of small-scale industries in any developing country. As a matter of fact, small sector has now emerged as a dynamic and vibrant sector for the Indian economy in the recent years. Before we discuss various aspects of small industry development, it seems pertinent to begin with an introductory framework of small industries in India

REVIEW OF LITERATURE:

This paper reviews the existing microeconomic evidence on whether SMEs boost growth and reduce poverty. A growing body of work suggests that SMEs do not boost the quantity and quality of employment. Initially, Birch (1979) argued that small firms

are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America. However, a wide array of evidence rejects the view that small firms are the engines of job formation (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown, Hamilton, and Medoff, 1990). For instance, Davis, Haltiwanger and Schuh (1993) show that while gross rates of job creation and destruction are higher in small firms; there is no systematic relationship between net job creation and firm size. In Sub-Saharan Africa, Biggs and Shah (1998) find that large firms were the dominant source of net job creation in the manufacturing sector.

DEFINITION OF SMALL SCALE INDUSTRIES (SSI):

The definition of Small Scale Industry may vary from country to country, year to year, from period to period and from time to time and according to the level of economic development reached in a country. Sometimes it is defined in terms of number of workers employed and on the use of electric power and also in terms of investment made. Generally the definition of small-scale industries (SSI) is largely in terms of fixed capital investment. An SSI in India is currently defined in terms of which investment in fixed assets such as plant and machinery, whether held on ownership terms or on lease or hire purchase, does not exceed Rs. 10 million. In general, small scale industries are located in urban areas and produce goods employing hired labour and using mechanized equipments. SSI is considered as an important factor in realizing the objectives of economic growth and equity in the distribution of income and wealth. Hence, on account of its capacity to generate employment opportunities in addition to its favorable impact on equitable distribution of income and wealth, governments in India have been supporting the Small Scale Industries. The preferential policies of the governments in India include financial assistance from commercial banks, development financial institutions, tax exemption, reservation of items for Small Scale Industries, preferences in the purchase of products by government agencies, preferential access to materials and provision of infra-structural facilities.

CONCEPT OF SMALL SCALE INDUSTRIES:

The concept of 'small scale industry' is not only new to India but also practicing in the age old traditional systems in the ancient period. The definition of small scale industries are changing its central idea and have been shaped in the planning period. Since then it was maintained till the year 2006. These units have been merged with "Micro, small and Medium Enterprises" (MSME). The act clearly dived into two categories of industries; one is enterprises engaged in the manufacturing of production of

goods pertaining to any industry, also another is, in the case of enterprises engaged in providing or rendering of services. The MSMEs of manufacturing enterprises have been classified into micro, small and medium enterprises based on the amount of investment in plant and machinery as follows:

Manufacturing Enterprises – Investment in Plant and Machinery

Description	Amount
Micro Enterprises	Up to Rs 25 Lakhs
Small Enterprises	Above Rs. 25 Lakhs & Up to Rs. 5 Crores
Medium Enterprises	Above Rs. 5 Crores & Up to Rs.10 Crores

The MSMEs of service enterprises have been classified into micro, small and medium enterprises based on the amount of investment in equipments as follows:

Service Enterprises- Investment in Equipments

Description	Amount
Micro Enterprises	Up to Rs 10Lakhs
Small Enterprises	Above Rs10 Lakhs & Up to Rs. 2 Crores
Medium Enterprises	Above Rs2 Crores & Up to Rs.5 Crores

SMALL SCALE INDUSTRIES – A BROAD OVERVIEW:

The small-scale sector occupies a position of prominence in the Indian economy. It contributes to around 50% of industrial production in value addition terms, 7% of the GNP, and employs the largest manpower next to agriculture (Gulati, M.1997). Over the past five decades, various government policies have been formulated for the growth and development of small-scale industries. A series of six Industrial Policy Resolutions/ Statements have been formulated by the Union Government since independence and all these statements have stressed, in various forms, the need to promote the SSI sector in the country. The underlying feature here is the important role that the SSI sector plays in providing employment opportunities, mobilizing local skills and capital resources, and in the process ensuring development of the rural areas and small towns.

The measures taken by the Government, from time to time, to protect the interests of SSIs and to improve their viability, include reservations of certain items for exclusive manufacture in small-scale and various fiscal measures. More than 800 items are currently reserved for exclusive manufacture in the SSI sector. The overwhelming consideration for reservation of an item is its suitability and feasibility for being made in the small-scale sector without compromising quality aspects. The reservation of products for exclusive manufacture by SSIs is reviewed regularly. Other policy measures undertaken by the Government address the basic requirements of the SSIs, such as, credit, marketing, and technology, and entrepreneurship development, fiscal, financial and infrastructural support. The Government has also been extending preferences in respect of purchase of items manufactured by SSIs. To focus on planned development of SSI sector, a separate ministry was created by the Government of India in 1999, namely the Ministry of Small Scale Industries & Agro and Rural Industries to act as a nodal ministry for policy formulation, promotion, development and protection of small-scale industries. As a result of the policy measures taken by the various Governments from time to time, the small and medium enterprises have today become the backbone of the Indian manufacturing sector. This can also be gauged from the fact that the direct exports from the SSI Sector account for 35% of the total exports

SMALL-SCALE INDUSTRY CLUSTERS IN INDIA:

The SSI clusters in India are spread throughout the length and

breadth of the country. There is no definite figure available on the number and size of these clusters. However, some of the estimates point out the existence of around 2000 clusters, most of which are located in the rural areas. These rural based clusters are artisan-based units that have grown in size with the passage of time. They use very simple manufacturing processes or techniques and the products are manufactured by the local artisans. The skill is transferred from one generation to another without any up-gradation in the methodology of manufacture or improvement in product quality. Some of the examples of products produced in such clusters are textile handicrafts, woodcarving, stone carving, metal ware etc.

PROBLEMS OF SSIs:

Despite of recommendable contribution to the nation’s economy, the SSI sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which become a handicap for more competitive in the National and International Markets. Small-scale industries in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, small industries face are given below.

Problem of skilled manpower:

The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

Inadequate credit assistance:

Inadequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country. Lack of finance is the main obstacle for the development of small-scale industries. The financial problem of small industries is a part of the wider problem of capital scarcity in the economy as a whole and it is partly due to the peculiarity of small industry organization. The creditworthiness of small borrowers is generally weak and therefore they face reluctant creditors who may be induced to lend only at a very high rate of interest.

Irregular supply of raw material:

Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, and increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.

Absence of organized marketing:

One major problem of small- scale industries is marketing. These units often do not possess any marketing organization and consequently their products compare unfavorably with the quality of the products of large-scale industries. Therefore they suffer from a competitive disadvantage Vis a-vis large-scale units. In the absence of organized marketing, their products compare unfavorably with the quality of the product of large- scale units. They also fail to get adequate information about consumer’s choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

Lack of machinery and equipment:

Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of ap-

appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.

Absence of adequate infrastructure:

Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.

Competition from large-scale units and imported articles:

Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.

Other problems:

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage

CONCLUSION:

There is an unprecedented importance of Small and medium Enterprises in the country. This is because the number of units is maximum in the country. This sector, contributes a major amount in the development and employment. This sector does the work of providing employment to minorities, backward class people and also to women. This sector is rife with problems like shortage of electricity and development of basic infrastructure along with the problems related to market. In order to solve these problems and develop the SME sector, major efforts have been done in the eleventh plan. However these efforts are not enough. For the development of rural and farm group, different departments should be formed. Similarly, in the development of industrial ministry for urban Micro and Small and Medium Industries specific efforts should be done. SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; no concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. SMEs are the growth engine of the economy and help sustain other sectors such as services.

REFERENCE

1. Asher Ramsinh K.-"Small Scale and Cottage Industries in India" -Tata McGraw Hills,New Delhi | 2. Deasi S.S.M.-Industrial Economy of India-Himalaya Publishing House, New Delhi. | 3. Dr. A.S.Shiralashetti-"Prospects & Problems of MSMEs in India"-A Study- International Journal of an Multidisciplinary & Academic Research -Vol I No. 2 July-Aug.(ISSN 2278-5973) [4] Mulimani A. A., Belgaum M.S., P. R. Morakar- "Problems and Prospects of SSI of Goa: A Geographical Study"- Indian Streams Research Journal-Vol I, Issue XII/ Jan. 12 | 4. Dr. Babar S. N. -" Small Scale Industries & Economic Development: Special Reference to India"- Indian Streams Research Journal-Vol. II-Issue III/Apr. 12. | 5. Reddy T. Koti- "Problems & Prospects of Small Scale Industries in India" | 6. K.R.Vijayarani- "Small Scale Industries in India: Problems & Policy Initiatives. | 7. Ministry of Agro & Rural Industries | 8. www.onlinejra.co.in. | 9. www.msme.org.in | 10. www.shodhganga.inflibnet.ac.in |