

## SMALL SCALE INDUSTRIES IN INDIA

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### ABSTRACT

The last quarter of the 20<sup>th</sup> century will be remembered for the massive changes that have transformed the world. Technological change has influenced every walk of life be it manufacturing or services, private or public, domestic or multinational. During the globalization process, most of economies undertook policy changes, some are radical in nature, to usher economic liberalization and internationalization of products and services. The world economic scenario has undergone a metamorphic change. There are several forces, which are moving the world towards a single economy. Against this view point present paper attempts to review the growth and development of small scale industries in India.

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The small scale industries 'have worked as an engine of growth in both developed and developing countries. Despite the extraordinary synchronized global slump, small scale industries acted as a prime mover in slipping up industrial growth, enhancing poverty alleviation and bringing about sustainability. There has been an increasing realization of an to introduce the concept of Small and Medium Enterprises (SMEs) in place of Small Scale Industries (SSIs). SMEs represent over 80 per cent of the industrial base of most of the developed countries and so most of these countries have a concept of SMEs rather than SSIs.

There is growing recognition worldwide that SMEs have an important role to play in the present context given their greatest resource use efficiency, capacity for employment generation, technological innovation, promoting inter linkages, raising exports and developing entrepreneurship skills. Their locational flexibility is an important advantage in reducing regional imbalances. The future of SMEs is a major policy concern given their strategic importance in any discussion of reshaping the industrial sector. In case of India, government support to the small scale industrial sector since independence has been a serious concern since in the competitive environment posed by economic liberalization and globalization has compelled government to shift its policy.

The small scale sector, over the years has grown steadily and occupied an important place in the economy. The contribution of the sector in terms of generation of employment, output and exports is quite significant. The number of registered units in SSI sector has increased from 0.42 million at the end of March 1974 to 3.37 million at the end of March 2001. The Small Scale Industry sector accounts for 95 per cent of the industrial units. 40 per cent of output of the manufacturing sector, 35 per cent of the total exports and provides employment to around 17 million persons. The sector covers a wide spectrum of industries categorized under small, tiny and ancillary segments. In fact, it encompasses the continuum of the artisans, handicrafts units at one end and modern production units, with significant investments, on the other, producing a wide range of over 7,500 products. The sector acts as a nursery for the development of entrepreneurship talent. The SSI sector has been receiving special attention from the policy makers in addressing its requirements, but in audit, marketing, technology, entrepreneurship development, fiscal or infrastructural support.

The industry sector in India is broadly segmented into three categories namely (i) Large scale industry (factory) sector, (ii) Small scale factory sector; and (iii) Village and small industries sector. The units in the large scale factory sector and small scale factory are classified on the basis of an upper limit on investment in plant and machinery. The village and small industries sector has been further divided into two broad categories namely, the modern small scale industries and traditional industries. The modern small scale industries cover SSI units and powerloom units. The traditional industries sub-sector comprises tiny and cottage industries segment, like handloom, khadi and village industries, handicrafts, sericulture, silk and cotton. The SSI sector consists of different segments such as SSIs ancillary undertakings, tiny units, export oriented units, women enterprises and small scale services and business enterprises.

The growth rate of SSI sector has been comparatively higher than the growth rate of overall industry sector and manufacturing sector. However, the growth has shown fluctuating trend over the period 1990-91 to 2000-01. There has been significant decline of growth in industry sector and manufacturing sector while only marginal decline in growth of SSI sector has been noticed over the period.

There has been significant growth in number of units, production and exports while employment has increased marginally over the period of 1980-81 to 2000-01. Again, there has been a growth of 22.82 per cent in number of units, 315.64 per cent in production, 520.63 per cent in value of export and 48.12 per cent in employment generation during, the post reform period. During 2000-01, 3.37 million units produced with Rs. 6.445 billion and exported worth Rs. 599.78 million while these units provided employment to 18.56 million persons.

Most of the units are concentrated in Uttar Pradesh (12.51 per cent), followed by Tamil Nadu (11.34 per cent), Madhya Pradesh (9.71 per cent), Bihar (9.34 per cent), Maharashtra (7.85 per cent) and Karnataka (7.30 per cent), while industrial units of Tamil Nadu (20.05 per cent), Maharashtra (10.28 per cent), Uttar Pradesh (9.73 per cent) and Jammu Kashmir (7.39 per cent) provide substantial employment.

In the state of Uttar Pradesh, SSIs were reported to be 3.90 lakh units, which provide employment to 15.44 lakh persons and produced worth Rs. 103095 million during 1999-2000. During the period of 1987-88 to 1999-2000, industrial units registered the growth of 632.27 per cent, wild employment in these units grew by 342.49 per cent and investment by 293.30 per cent. During 1990s, handicraft industries in Uttar Pradesh has grown by 7.3 per cent SSIs are concentrated in Agra, Kanpur, Lucknow, Varanasi and Bareilly region. Panipat (Haryana), Tripur (Tamil Nadu), Ludhiana (Punjab), Agra (Uttar Pradesh) are some of the successful clusters of SSIs in India. About 75 per cent of total blankets' production in India is being contributed by Panipat cluster while Tripur clusters account for 80 per cent of India's cotton hosiery exports, Ludhiana cluster accounts for 95 per cent of India's woolen knitwear, 85 per cent of India's sewing machines, 60 per cent of bicycles and bicycles parts.

Agra cluster of Uttar Pradesh has shown tremendous performance since 800 registered and 6000 unregistered small scale units are making shoes. Daily production value of rupees to be \$1.3 million with the export worth of \$ 60 million per year. It is to be noted that Agra shoe market is largest shoe market of Asia. The distribution of cluster of industries has been concentrated in Maharashtra (25), Gujarat (20), Punjab (15), Rajasthan (14), Uttar Pradesh (13) and Haryana.

According to second all India census for the reference period 1987-88, 96.24 per cent of SSI units were small scale industries, 3.24 percent of the units were small scale .services establishment and 0.52 per cent of the units were ancillary units. The DC(SSI) sample survey data for the reference year 1992-93 show that 87.28 per cent of the units are SSIs, 11.15 per cent as SSEs, and remaining 1.57 per cent ancillary units. Again, first All India Census (1972-73) reported that 61 per cent units were proprietary while 35 per cent units were under partnership. DC (SSI) sample survey also suggests that 78 per cent industrial units were proprietary while manufacturing enterprises survey (1994-95) responded that 97.65 per cent units were proprietary.

During 1997-98 to 1999-2000, KVIs registered the growth of 36.42 per cent in production, 33.63 per cent in sales value and just 4.95 per cent in employment generation. Modern, small scale industries have shown higher growth rate than traditional industries.

However, readymade garment sector has shown tremendous performance in the post-reform period. Out of total garment production, 16.85 per cent is being exported. The ratio of exports o production has increased by 8.26 percentage points.

The policy perception on the role and relevance of SSI sector has not undergone any radical changes since Independence. While the Nehruvian emphasis under the Mahalanobis models gave way to the target group oriented approaches during the subsequent decades, and finally to the liberalization paradigm since 1991, there have been few quantitative changes in the policy. However, the policy needs to classify: (i) Policy perception; (i) Reservation (iii) Role of government; (iv) Centre and state relations; (v) Technology and competitiveness and (vi) Legal framework.

In the post liberalization era, there have been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated to introduce product specific incentives and concessions to small enterprises for product standardization, technology upgradation and modernization. The policy announced dui the year 1992 to 1999 for the promotion and development of SSIs are briefly given below (SIDBI, 2000):

SSI units engaged in manufacturing delicerard items were exempted from carry on business licence on their graduation to medium scale.

- Development of Software Technology Park in private sector was remitted.

- A National Renewal Fund was set up for project workers affected by technological upgradation and modernization.
- The interest on Delayed Payments to small scale and Ancillary Industrial Undertakings Act, 1993 was promulgated.
- The provisions of FERA for foreign owned corporations were eased.
- A single window scheme of SIDBI for project upto Rs.5 million was implemented.
- An integrated infrastructural development scheme was launched.
- Financial assistance for the quality ratification scheme was launched to enable small industries to acquire ISO 9000 or similar international quality standards.
- A Technology Development Fund scheme to promote modernization and upgradation of technology and capital goods import was modified by raising the ceiling to Rs. 50 million per unit.
- The eligibility limit for availing of the SSI excise duty exemption scheme as raised from Rs. 20 million to Rs. 30 million.
- A Technological Development and Modernization Fund with an initial corpus of Rs. 2 billion was set up in SIDBI.
- Entrepreneurship Development Institutes were set up in some of the states.
- The Expert Committee on small enterprises recommended new policy directions, investment limits in plant and machinery, were increased to Rs. 30 million for SSI and, Rs. 2.5 million for tiny enterprises.
- Fifteen items were de out of 836 items reserved for exclusive manufacturing in SSI sector.
- Measures were re to tackle the problems resulting from the Inspector Raj by reducing t contact points and restricting the factory visits by Inspectors.
- Forty, per cent of the industrial plots, developed under the TIDC scheme were reserved for allotment to the tiny units. NSIC was advised to earmark 40 per cent of the amount of assistance of tiny units in respect of supply of machinery on a hire purchase basis.
- The definition of SI was revised on December 24, 1999 by reducing the investment ceiling in plant and machinery from .Rs. 30 million to Rs. 10 million.

- All industrial units in the north eastern region were exempted from excise duty for 10 years.

The key issues influencing the SSI sector policy formulation relate to production export growth creation of employment opportunities reduction of rural urban disparity, improving rate of return on investment, lower incidence of sickness and ensuring wide dispersal of industry etc. A study conducted by NCAER in 1996-97 on relative performance of units in specific industry groups in the post reform period (1991-92 to 1995-96) vs. pre-reform period (1998-89 to 1990-91) indicated that the productivity of select industries like scientific instruments, leather and leather goods and supply materials increased in the post reform period in comparison with the pre reform period. Return on capital considerably increased in respect of woolen hosiery and knitwear, copper and, copper alloy and lock making industries. There was an adverse impact in the case of scientific instruments and cotton hosiery industries. Export intensity in the post reform period increased in respect of woolen and hosiery knitwear as against leather and leather products which experienced adverse impact.

There has been remarkable growth in number of SSI units, net value added, fixed capital, investment and employment in post-reform period as compared to pre-reform period. Again, SSI sector has performed well in post reform period as compared to large scale factory sector. However, due to increasing pollution and lack of financial support to install waste water effluent treatment plants, most pollution industries were closed down in Uttar Pradesh a number of tanneries were closed down in Kanpur and neighbouring districts. However, the number of closed industries has been reported higher in Andhra Pradesh (28), Maharashtra (19), and Uttar Pradesh (15). Again, many industries were defaulters to comply environmental laws. CII survey in international competitiveness of SSIs (1999) indicated that although the small scale - industries in the cot were gearing up well to meet international standards in the areas of technology, quality and the use of IT, yet considerable efforts were required to be made jointly on the part of both industries and government for the SSI sector to be able to qualify as a national competitive sector. PHDCCI study on imparting of FDI on India (1999) indicated that the bulk of FDI inflows, since 1991 have been in the core/nonmanufacturing infrastructural sectors in 1998-99, the engineering sector accounted for the maximum share of total investment. The actual inflows of investment

has been considerably low as compared to the approval granted by the government in respect of FDIs.

### **WTO and SSIs in India**

In view of emerging challenges in the post WTO regime and removal of quantitative restrictions, a need is felt to assess its broad impact on various activities and product lines in the SSIs. There are variety of ways in which WTO agreement can impact SSIs in India, The new trade regime offers opportunities for market expansion to small enterprises and also provides a number of protective devices, which can be ultimately used to extend relief against increasing imports in response to the elimination of QRs. Both SPS (Sanitary and Phyto-standards) and TBT (Technical Barriers to Trade) can prove to be significant threats for Indian SSIs which suffer from disadvantages with respect to technology and quality. Of the top, 20 affected activities, ten are from the food processing sector. The remaining 10 represent a variety of sectors. Three are from textile sector two industries are manufacturing paper and board products, and the remaining are bamboo and cane furniture, cork products and rubber products, office equipment and fertilizers and pesticides etc. Again, it is likely to have greater impact on employment rather than production.

While the WTO is likely to affect almost the entire range of industries, its effect would be pronounced on the SSI sector because of the largely unorganized nature of this sector, lack of data, obsolete technology, poor infrastructure, weak capital base; inadequate access to economies of scale etc. The provisions/agreements likely to impact the Indian SSI sector under the WTO regime relate to Quantitative Restrictions (QRs), tariff reduction, antidumping practices, subsidies' and countervailing, measures and technical barriers to trade, trade related, investment measures (TRIMs) and trade related intellectual property rights (TRIPs) (Kumar, 2001).

The WTO has thrown documentary challenges to planners, policy makers industrialists and even to those at the helm of affairs in the developing countries to respond effectively. Enhanced benefits to the SSIs from the improved institutional framework necessitated a thorough understanding by the SSIs of the rights and obligations of the trade rules, knowledge of SSIs about the new opportunities for trade, an active policy of NGOs, continuous monitoring of developments all over the world and

insertion highlighting of the problems faced by the various entrepreneurs to the notice of the Government for their resolution at various levels.

The small scale sector which accounts for a substantial quantity of goods and products employment has been uniformly affected by the new economic policies. The present policies are also oblivious to the problems of small farmers and other primary sector producers, especially in the semi arid regions. The presence of MNCs is being increasingly felt and is undermining local manufacturing capabilities as well as research and developments. The rising capital intensity is also affecting employment adversely (Kumar, 1993). Several large companies of multinational origin have begun to buy food for processing, for sale in local as well as export markets. In some cases, contract farming too is practiced. In most of agri-export processes, modern biotechnology seeds are provided from external sources. In the coastal regions of Andhra Pradesh and Tamil Nadu, small scale paddy farmers are being displaced from their land to give way to prawn farming by large companies for export. These prawn farms not only absorb labour, they ecologically degrade the earth by inlet of blackish waters. Importantly, fishing by MNCs in the coastal region has threatened traditional fishermen (Acharya, 1995).

The small scale sector, with its limited productivity and elementary technology, produces a substantial quantity and provides an even larger proportion of employment. The entry of MNCs in Agri-business, readymade garments, electronics etc. has adversely impacted indigenous industries and employment in the sector.

Small scale units in India have assumed significance not only for their contribution to the economy, especially in the creation of employment, but also for the special patronage they enjoy from the government. 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 (Tendular, et al. 1997). The business environment has been changing drastically in the recent times. It is to be noted that protection is a transitory measure and can be used only to give time to industrial units to improve their competitive strengths. All industrial units small or



large have to sustain themselves in their own competitive strength by successfully facing competition in market economies. Industrial units have to be competitive and commercially viable. In the process of globalization, Indian enterprises, small or large, whether exporting or serving the domestic market has to face competition. The process has already been initiated for small scale units by placing 586 of the 812 reserved items on the open general licence list of imports. It is to be noted that toys and garments that have been reserved till recent past are already hit by imports (Business Today, July, 6, 2001). In addition change in the trade policies have taken away the special advantage of small scale units in their supply of imported materials through government agencies at nominal prices.

In the electronic industry, where numerous small scale units are engaged in manual assembly of imported kits/compartments of goods like tape recorders have already been hit by the presence of multinationals such as Sony.

Increasing internationalization of production, distribution and marketing of goods and services has given rise to global commodity chains. These chains are the network of business units of various sizes beginning from the stage of raw material supply to production, marketing and retail of any product being located across countries. These commodity chains can either be producer driven or buyer driven. Producer driven commodity chains can be seen for capital and technology intensive products like automobile and electronic (Gereffi, 1995). To get into the international production and trade networks, individual units have to satisfy the buyers standards in terms of price, quality and delivery schedules (Gereffi, 1995).

The Indian electronics industry is undergoing transformation due to the new economic policy of the 1990s and the rapid technological developments in electronics. With the delicensing of the entire consumer electronics industry and the removal of restrictions on foreign investments, almost all important global players like Thompson, Sony, and Goldstar have entered the Indian industry either directly or through collaborations with the local companies. These multinationals brought in well known global brands and offer consumer wider choice in terms of product features, quality and competitive prices. In addition, all the components, raw materials and capital

goods relating to the industry are made free to import and duties on these imports are reduced (Hindu Survey of Indian Industries 1999).

Liberalization has exposed all industrial units including small units to market competition to a greater extent. Globalization intensifies market competition by allowing imports and MNCs into India relatively early. In order to withstand competition, Indian industries, especially the small industries need to improve their productivity, quality, efficiency and reduce the cost of production and marketing.

### **Suggestions**

- Indian manufacturing capabilities should be developed to a level where Indian products are competitive across global markets in terms of price, quality, technology, delivery of services. To achieve this, Indian firms should be enabled to access the latest technology from across the globe, indigenous research and development innovation need to be encouraged and a passion for manufacturing needs to be created while infrastructure, public services and utilities should be improved and made more efficient to assist manufacturing growth. Government, industry, research institutions and academicians should be facilitated and encouraged to work in collaboration to improve industry capabilities. Moreover, firms should be able to obtain funds easily and cheaply, and be encouraged to invest in developing technology.
- General Managers and officials of District Industry Centre should be sensitized to become more aware of how they can support micro and small enterprises in their functioning. Special attention should be given to the role they can play as facilitators and educators and not only as regulators.
- Infrastructure in industrial estates and improvement in the quality and quantity of power supplies should be effected in order to enable industrial entrepreneurs for effective functioning of micro and small enterprises in the state. This could involve greater use of public-private partnerships to maintain industrial estates and the attraction of private sector investment for infrastructure development.
- Quality control is important at all the stages. It should be done in three phases: (i) raw materials-materials characterization and testing of relevant properties; (ii) in process-mould preparation, temperature, pressure, mass flow rate, etc.; (iii) post

fabrication-non destructive tests, batch level destructive tests such as mechanical testing environmental testing, etc.

- Many Indian organizations have already in their path towards global competitiveness. It is imperative that many other Indian organizations attain global competitiveness in the near future. This can be done only by adopting a holistic approach to global competitiveness as the organizations should move up the value' chain from low cost to high quality to move innovative through R & D and technological initiatives. This will help them in building long term sustainable competitiveness in the domestic turf as well as globally.
- Government must eliminate all reservations in SSI sector, standing with 63 items which constitute over 80 per cent of the total output of S SI sector. State governments and industry bodies have to take a lead to identify SSI clusters, promote cooperation between business and local authorities for cluster development, and formulate policies that attract investment to these clusters.
- A State Technology Development Fund for small industries be established to act as the main conduct of transmission mechanism of the State Mission on Technology. The fund should be routed through SIDBI because it is the principal financial institution for SSIs. The fund should support SSI units in absorbing technology transfer costs meeting with initial ground work related expenditure. The fund should initiate efforts at the earliest to set up technology packages, clusters for SSIs in important zones to promote induction of new technologies, incremental innovation and effective transfer.

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