

Development of Small Scale Industries in India

Ranjit Prasad Verma, Research Scholar, University Department of Economics
 Dr. P. K. Roy, Professor, University Department of Economics,
 Babasaheb Bhimrao Ambedkar Bihar University Muzaffarpur, Bihar, India.

Abstract: - Small scale industry is widely recognized as a powerful instrument for socioeconomic growth and balanced sectoral development. One of the distinctive characteristics of small scale sector is that the development of these industries would create broader employment opportunities assisting entrepreneurship and skills development and ensure better use of scarce financial resources and appropriate technology. Furthermore, they can play a main role in achievement of national economy and sociopolitical objectives, the gestation period is very short and they need small amount of capital to start. I also help in the dissemination of production capacity unlike the large scale industries which tend to concentrate in a few hands. This apart, establishment of such industries in rural areas and small towns helps to check the influx of population into bigger towns. A rewarding feature of economic development in India has been the impressive growth of modern small scale industries. The small enterprises have by now established their competence to manufacture a wide variety of sophisticated goods in different product lines requiring a high degree of skill and precision.

Index Terms- Small – Scale Industry Period of in India, Types of SSI, Roles of SSI, Performance of SSI.

LITRODUCTION

Small scale enterprises are found in existence in every country. Small-scale, enterprises have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. This sector has now emerged as a dynamic and vibrant sector for the Indian economy in the recent years.

Definition of SSI: as a unit employing less than 50 employees, if using power, and less than 100 employees without the use of power and with a capital asst not exceeding rs.5 lakhs.

The definitional change of SSI over the period of in India shows in table:

Years	SSI Unit	Employment
Upto 1958	Capital upto 5 lakshs	Using power 50 or without power 100
1960	Fixed asset 5 lakshs	-Do-
1966	Rs.75 lakshs	No criteria for employment
1975	Rs 10 lakshs	No criteria for employment
1980	Rs 20 lakshs	No criteria for employment
1985	Rs 35 lakshs	No criteria for employment
1991	Rs.60 lakshs	No criteria for employment

Source: S.S Khanka: Growth *via-a-vis* Sickness in Small Scale Industries in India, productivity, Vol.35, No.3, Oct-Dec,1994, pp.488-493.

Objectives of SSI:

- To bring backward areas too in the mainstream of national development.
- To improve the level of living of people in the country.
- To eradicate unemployment problem from the country.
- To ensure more equitable distribution of national income.

ROLES OF SSI:

- 1) Small Scale Industrial Undertaking
- 2) Ancillary Industrial Undertaking
- 3) Tiny Enterprise
- 4) Women Entrepreneur
- 5) Small Scale Service & Business (Industry related) Enterprises (SSSBs)

Small Scale Industrial Undertakings

The following requirements are to be complied with by an industrial undertaking to be graded as Small Scale Industrial undertaking w.e.f. 21.12.1999. An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs 10 million. (Subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertaking).

Purpose Industrial Undertakings

- "owned" shall have the meaning as derived from the definition of the expression "owner" specified in clause (1) of section 3 of the said Act.
- "subsidiary" shall have the same meaning as in clause (47) of section 2, read with section 4, of the Companies Act, 1956 (1 of 1956).

INDUSTRIAL UNDERTAKING

- where two or more industrial undertakings are set up by the same person as a proprietor, each of such industrial undertakings shall be considered to be controlled by the other industrial undertaking or undertakings,
- where two or more industrial undertakings are set up as partnership firms under the Indian Partnership Act, 1932 (1 of 1932) and one or more partners are common partner or partners in such firms, each such undertaking shall be considered to be controlled by other undertaking or undertakings,
- where industrial undertakings are set up by companies under the Companies Act, 1956 (1 of 1956), an industrial undertaking shall be considered to be controlled by other industrial undertaking if:-
- the equity holding by other industrial undertaking in it exceeds twenty four percent of its total equity; or
- the management control of an undertaking is passed on to the other industrial undertaking by way of the Managing Director of the first mentioned undertaking being also the Managing Director or Director in the other industrial undertaking or the majority of Directors on the Board of the first mentioned undertaking being the equity holders in the other industrial undertaking in terms of the provisions. Undertakings in the undertaking as per sub- clause above shall be worked out as follows:-
- the equity participation by other industrial undertaking shall include both foreign and domestic equity; equity participation by other industrial undertaking shall mean total equity held in an industrial undertaking by other industrial undertaking or undertakings, whether small scale or otherwise, put together as well as the equity held by persons who are Directors in any other industrial undertaking or undertakings even if the person concerned is a Director in other Industrial Undertaking or Undertakings;
- equity held by a person, having special technical qualification and experience, appointed as a Director in a small scale industrial undertaking, to the extent of qualification shares, if so provided in the Articles of Association, shall not be counted in computing the equity held by other industrial undertaking or undertakings even if the person concerned is a Director in other industrial undertakings or undertakings;
- where an industrial undertaking is a subsidiary of, or is owned or controlled by, any other industrial undertaking or undertakings in terms of sub-clauses (i); (ii); or (iii) and if the total investment in fixed assets in plant and machinery of the first mentioned industrial undertaking and the other industrial undertaking or undertakings clubbed together exceeds the limit of investment specified in paragraphs (1) or (2) of this notification as the case may be, none of these industrial undertakings shall be considered to be a small scale or ancillary industrial undertaking.

- Note 2-
 - In calculating the value of plant and machinery for the purposes of paragraphs (1) and (2) of this notification, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be considered.
- In calculating the value of plant and machinery, the following shall be excluded, namely: -
 - The cost of equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;
 - The cost of research and development equipment and pollution control equipment;
 - The cost of generation sets and extra transformer installed by the undertaking as per the regulations of the State Electricity Board;
 - The bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
 - The cost involved in procurement or installation of cables, wiring, bus bars, electrical control panels (not those mounted on individual machines), oil circuit breakers or miniature.

In the case of imported machinery, the following shall be included in calculating the value, namely: -

- import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port);
- the shipping charges;
- customs clearance charges; and
- sales tax.

Every industrial undertaking which has been issued a certificate of registration under section 10 of the said Act or a license under sections 11, 11A and 13 of the said Act by the Central Government and are covered by the provisions of paragraphs (1) and (2) above relating to the ancillary or small scale industrial undertaking, may be registered, at the discretion of the owner, as such, within a period of one hundred and eighty days from the date of publication of this notification in the Official Gazette.

Ancillary Industrial Undertakings

The following requirements are to be complied with by an industrial undertaking for being regarded as ancillary industrial undertaking: -

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million.

Tiny Enterprises

Investment limit in plant and machinery in respect of tiny enterprises is Rs 2.5 million irrespective of location of the unit.

Women Entrepreneurs

A Small Scale Industrial Unit/ Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as Partners/ Shareholders/ Directors of Private Limits Company/ Members of Cooperative Society.

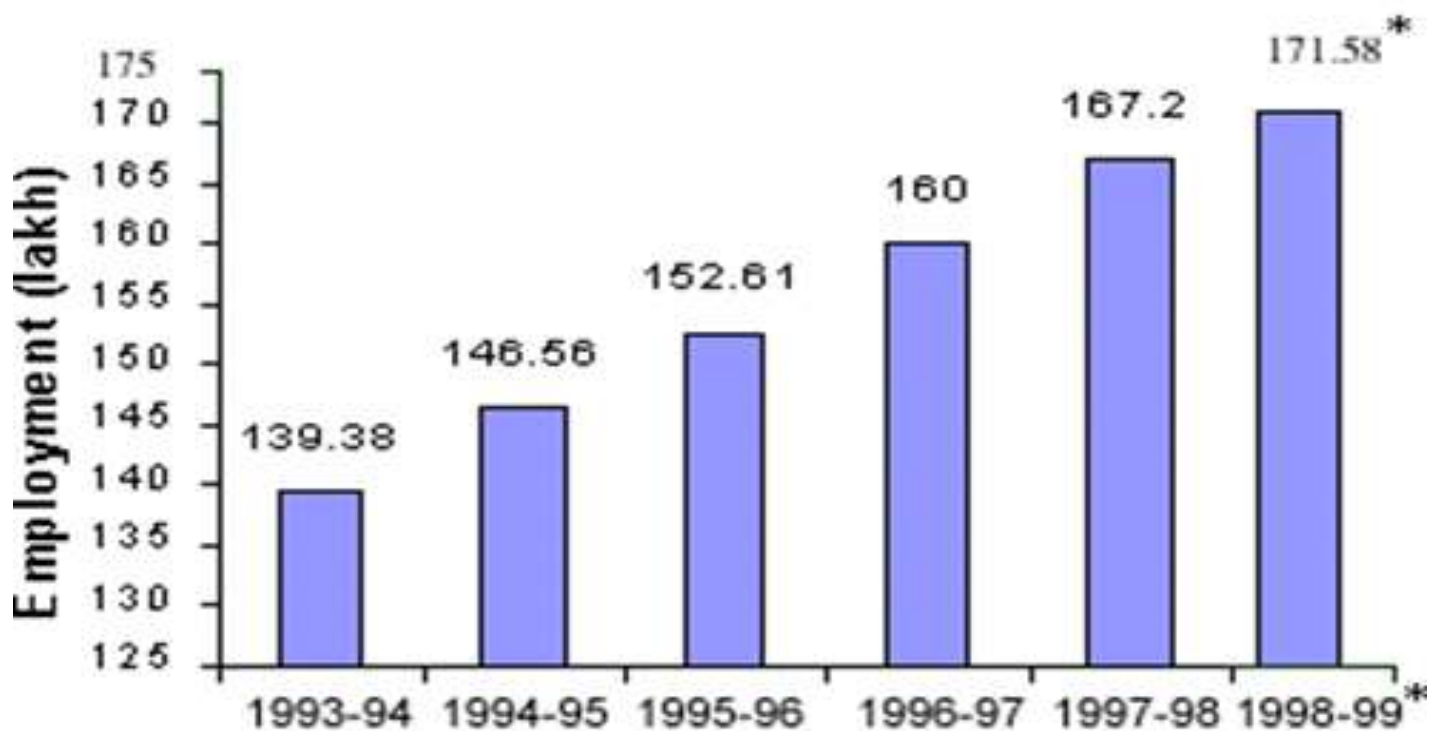
Performance of Small Scale Industries

- Employment
- Production
- Exports
- Opportunities
- Economic Indicators

Employment Generation

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that a lakh rupee of investment in fixed assets in the small scale sector generates employment for four persons.

Employment in Small Scale Sector



* Projected

According to the SSI Sector survey conducted by the Ministry and National Informatics Centre with the base year of 1987-88, the following interesting observations were made related to employment in the small scale sector.

Generation of Employment - Industry Group-wise

Food products industry has ranked first in generating employment, providing employment to 4.82 lakh persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 4.46 lakh persons (12.2%) and Metal products with 3.73 lakh persons (10.2%).

In Chemicals & chemical products, Machinery parts and except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%. In all other industries the contribution was less than 5%.

Per unit employment

Per unit employment was the highest (20) in units engaged in Beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu. Next came Cotton textile products (17), Non-metallic mineral products (14.1), Basic metal industries (13.6) and Electrical machinery and parts (11.2.) The lowest figure of 2.4 was in Repair services line. Per unit employment was the highest (10) in metropolitan areas and lowest (5) in rural areas. However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas. In urban areas highest employment per unit was in Beverages, tobacco products (31 persons) followed by Cotton textile products (18), Basic metal industries (13) and Non-metallic mineral products (12).

Rural

Non-metallic products contributed 22.7% to employment generated in rural areas. Food Products accounted for 21.1%, Wood Products and Chemicals and chemical products shared between them 17.5%.

Urban

As for urban areas, Food Products and Metal Products almost equally shared 22.8% of employment. Machinery and parts except electrical, Non-metallic mineral products, and Chemicals & chemical products between them accounted for 26.2% of employment.

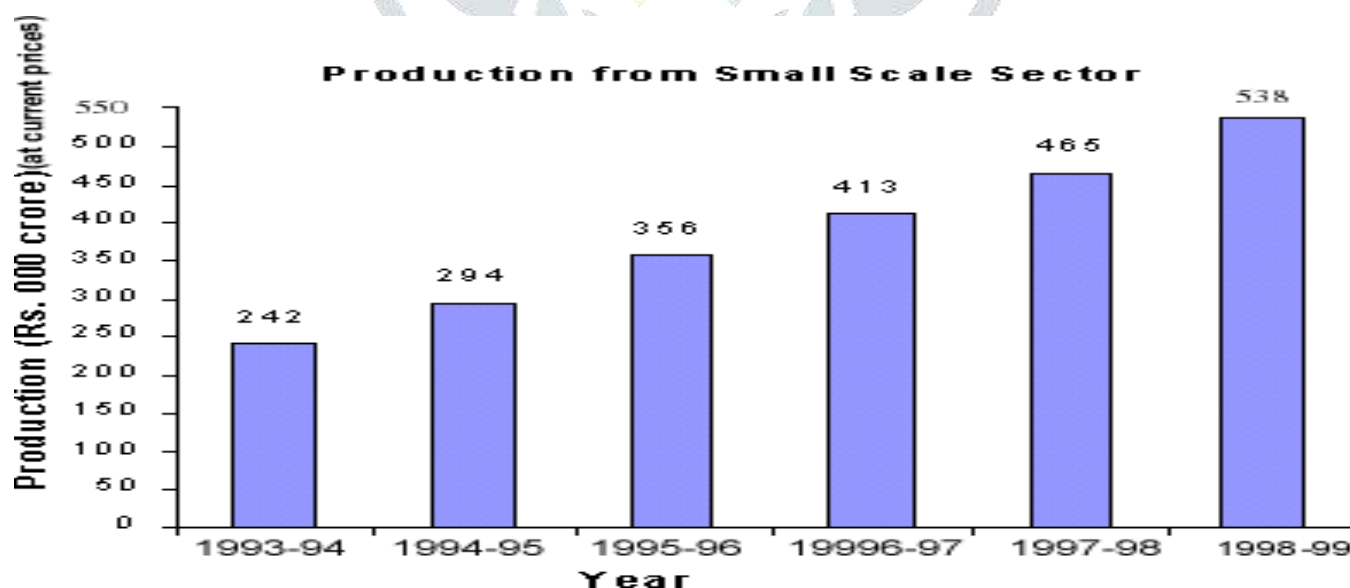
In metropolitan areas the leading industries were Metal products, Machinery and parts except electrical and Paper products & printing (total share being 33.6%).

State-wise Employment Distribution

Tamil Nadu (14.5%) made the maximum contribution to employment.

This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%), and Punjab (5.6%) together accounted for another 27.4%. Per unit employment was high - 17, 16 and 14 respectively - in Nagaland, Sikkim and Dadra & Nagar Haveli. It was 12 in Maharashtra, Tripura and Delhi. Production The small scale industries sector plays a vital role for the growth of the country. It contributes 40% of the gross manufacture to the Indian economy. It has been estimated that a lakhs rupee of investment in fixed assets in the small scale sector produces 4.62 lakhs worth of goods or services with an approximate value addition of ten percentage points.

The small scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive.



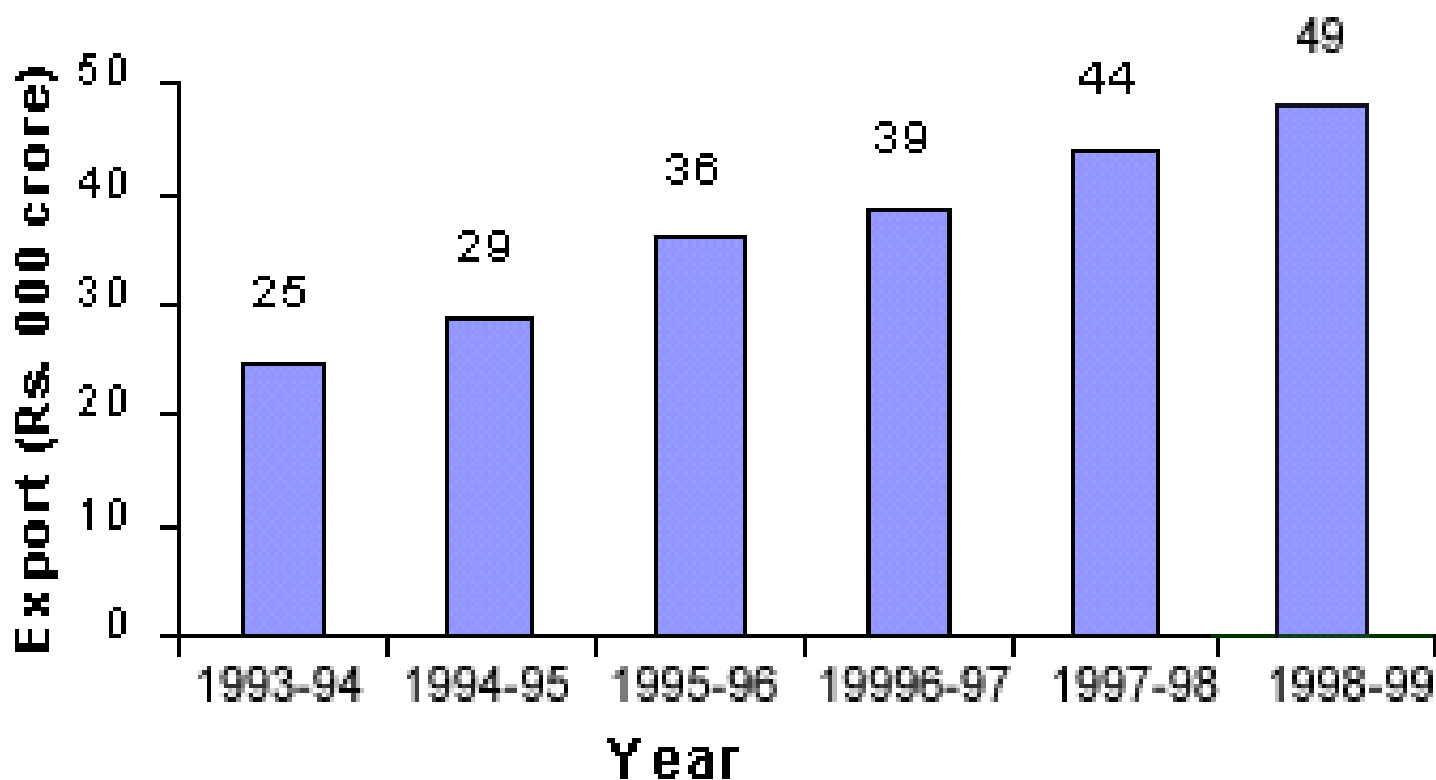
The number of small-scale units has increased from an estimated 8.74 lakhs units in the year 1980-81 to an estimated 31.21 lakhs in the year 1999. From the year 1990-91 this sector has exhibited a comparatively lower growth trend (though positive) which continued during the next two years. However, this has to be viewed in the background of the general recession in the economy. The transition period of the process of economic reforms was also affected for some period by adverse factors such as foreign exchange constraints, credit squeeze, demand recession, high interest rates, shortage of raw material etc. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector. The estimates of growth for the year 1995-96 have shown an upswing. The growth of SSI sector has surpassed overall industrial growth from 1991 onwards. The positive trend is likely to strengthen in the coming years. This trend augurs a bright future for the small-scale industry.

Export contribution

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is being contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. The number of small-scale units that undertake direct exports would be more than 5000.

Besides direct exports, it is estimated that small scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. It would surprise many to know that nontraditional products account for more than 95% of the SSI exports. The exports from SSI sector has been clocking excellent growth rates in this decade. It has been mostly fueled by the performance of garment, leather and gems and jewelry units from this sector.

Export from Small Sector

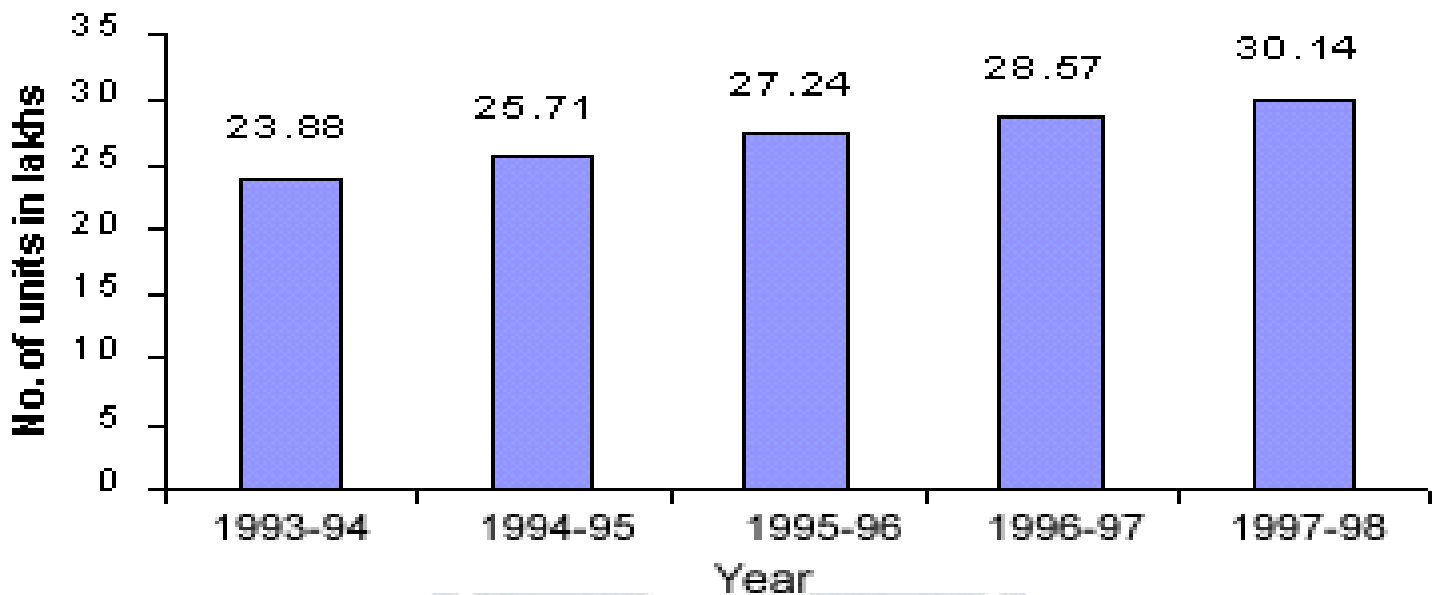


The lucrative product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.

Opportunities

Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

Small Scale Units



By its less capital intensive and high Labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

The opportunities in the small scale sector is enormous due to the following factors

- Less Capital Intensive.
- Extensive Promotion & Support by the Government.
- Reservation for Exclusive Manufacture by small scale sector.
- Finance & Subsidies.
- Machinery Procurement.
- Manpower Training
- Technical & Managerial skills
- Tools & Tools utilization support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth

Growth in Requirements for ancillary units due to the increase in number of green field units coming up in the large-scale sector.

So this is the opportune time to set up projects in the small scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well-grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units.

The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bug bear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalization will therefore, attract the infusion of just these things in the sector.

Economic Indicators

The Small-Scale Industry today constitutes a very important segment of the Indian economy. The development of this sector came about primarily due to the vision of our late Prime Minister Jawaharlal Nehru who sought to develop core industry and have a supporting sector in the form of small-scale enterprises. Small Scale Sector has emerged as a dynamic and vibrant sector of the economy. Today, it accounts for nearly 35% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. In terms of value added this sector accounts for about 40% of the value added in the manufacturing sector. The sector's contribution to employment is next only to agriculture in India.

It is therefore an excellent sector of economy for investment.

Conclusion

Small scale industries encompass vast scope activities like manufacturing, servicing, retailing, financing, construction, infrastructure etc. In view of the Government of India's ever-increasing importance given to the small-scale industries in the national economy, more and small industries are to be set up in the years to come.

Establishment of such industries in rural areas and small towns helps to check the influx of population into bigger towns. A rewarding feature of economic development in India has been the impressive growth of modern small scale industries. The small enterprises have by now established their competence to manufacture a wide variety of sophisticated goods in different product lines requiring a high degree of skill and precision.

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