



# An Empirical Study on the Impact of Small-Scale Industries on Indian Economy

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## **Abstract:**

In a nation like India, the concept of the role of SSI has always been supported by a variety of opinions, including those regarding “employment, equality, latent resources, the trickling effect, insurance against social tension, the distributive effect”, the creation of social eco-systems, and decentralisation, amongst others. The creation of opportunities for self-employment and the accumulation of money are two further points in support of this position. The study of SSIs has garnered a lot of interest from a wide variety of economists. The success of the small-scale sector may have a direct bearing on the expansion of the economy as a whole in terms of the number of units, output, employment, and exports. To have a better understanding of its place in the overall economic growth of the nation, it can be helpful to consider its function.

**Keywords:** Small-scale industry, economy, GDP

## **1. Introduction:**

The level of industrial development is directly related to the growth of a country's economy. The amount of industrial development is a good indicator of how far a country's economy has progressed. The expansion of industrial regions leads to a greater utilisation of natural resources, the production of products and enterprises, the development of job possibilities, and an overall improvement in the quality of life in the area. Since gaining independence in 1947, India has also worked to expand its industrial base. It has developed a variety of methods aimed at advancing both public and private sector enterprises. On SSI, exceptional emphasis has been placed. With its advantages of low risk and great potential for "jobs creation, growth of the industrial base, and spread of firms to rural and semi-urban zones," SSI plays a crucial role in the projected improvement. For the financial, social, and reasonable growth of the country, the SSI sector has been appropriately assigned a vital place in the planned economy. Small-scale industries are important for India's overall economic growth since they help create jobs. It aids in the industrialisation of both the rural and urban areas, which helps the nation's economy. SSI's help the government in many ways by “increasing infrastructures and manufacturing industries, reducing issues like pollution, slums, poverty, and many development activities”.

Small business owners who are involved in micro-scale production, manufacturing, or service are referred to as small scale industries (SSI). In India's post-independence economy and social development, small scale enterprises are crucial. Small-scale enterprises, with their effective, efficient, adaptable, and inventive entrepreneurial spirit, provide the foundation of a growing economy. SSI units are recognised as the start of economic growth and for fostering equitable development all across the globe. In terms of creating jobs, addressing regional imbalances, establishing inter-sartorial ties, boosting exports, and encouraging equitable economic development potential, SSIs have made a really remarkable contribution to the Indian economy. This sector employs over 80 million people, accounts for 45% of manufactured output, and contributes for 40% of exports from the country with over 6000 goods ranging from conventional to high-tech and over 36 million units widely scattered over the country. Additionally, it makes up around 8% of the nation's GDP. The SSI sector may play a key role in advancing overall development and has the capacity to expand industrial expansion throughout the country. The anticipated National Manufacturing Policy's objectives to increase the

GDP contribution of manufacturing to 25%, “generate 100 million jobs by the end of 2022, and take India from its existing 2 trillion-dollar economy to a 20 trillion-dollar economy may all be achieved with the help of SSI units.” This essay's goal is to evaluate the many challenges that small businesses face and to analyse how they contribute to economic progress.

## 2. Meaning of Small-Scale Industries:

“A small-scale industry is an industrial undertaking where the investment under fixed assets in plant and machinery or equipment, whether held on ownership term or on the lease or hire purchase, does not exceed

- 10 crores for manufacturing enterprise and
- 5 crores for the service enterprise. Though, the investment limit varies overtime as recommended by the government”.

### 2.1 SSI can be classified into two broad categories:



Source:- <https://dcmsme.gov.in/ssiindia>

## 3. Role of SSI in Economic Development in India

Through employment and export, SSI's helps the country's Gross Domestic Product (GDP) grow on all fronts. Since gaining independence in 1947, the small-scale industrial sector has seen rapid growth despite a formidable battle from the major division and little government backing. Small-scale enterprises were granted a higher place in the 1948 Industrial Policy because they could provide surplus employment with relatively little capital outlay. The SSI sector has moved from producing "basic consumer products to the assembly of numerous refined and precise things like hardware control frameworks, microwave components, electro-medicinal sorts of gear, TV sets and so on" in only the last ten years.

## 4. Opportunities and Performance of Small-Scale Industries:

Small businesses generate a broad range of goods that range from traditional to inventive, and they are the second largest business of human capital after farming. As a labour-oriented company that creates jobs in both rural and urban areas, SSI plays a crucial role in the Indian economy. Since India's independence, the SSIs have also played a significant role in economic development efforts, despite significant opposition from large industrial conglomerates and little support from the government. The employment function performed by small scale industries in India is shown in the figure below.

### 4.1 Origination of employment:

The strain of an expanding population on land and the need to create enormous employment vacancies is the main challenge facing the Indian economy. With the help of small-scale industries (SSIs), which are labour-oriented by nature and have shown amazing growth over the last ten years, this problem may be understood on a larger scale. “According to National Sample Survey (NSS) 73rd round led during the time period 2015-16, MSME sector has been generating 11.10 crore jobs (360.41 lakh in Manufacturing,

387.18 lakh in Trade and 362.22 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas all over the country. Table 2.8 and Figure 2-5 shows the distribution of MSMEs activity-wise (msme.gov.in) Estimated Employment in MSME Sector (Broad Activity Category Wise)”

## 5. Aims and Objectives:

1. The suggested research's primary objective is to examine the role and contribution of small-scale enterprises to the growth of the Indian economy, with a particular emphasis on whether or not their potential has been undervalued or overestimated. The study will be tasked with achieving the following goals:
2. To undertake a study of the literature on the role and contribution of small-scale enterprises to the growth of the economy in terms of job creation and exports
3. To undertake field research to examine the function and value of small-scale enterprises in the expansion of the Indian economy in terms of employment and exports.

## 6. Research Question:

1. How do small-scale industries affect and contribute to the growth of the Indian economy in terms of job creation?
2. In respect to GDP, what function do small-scale industries play in the growth of the Indian economy?

## 7. Review of literature:

(Tambunan, 1991) in the study “The Role of Small-Scale Industries in Economic Development” says that Recent attention to Indonesia's socioeconomic issues has reignited interest in the function of small-scale businesses (SSIs) there. Although there are undoubtedly flaws in contrast to Medium-and Large-Scale Industries (MLSI), this study at the macro level helps us to have a far less dismal assessment of how well SSIs are doing in Indonesia. This essay focuses a lot of emphasis on the crucial issue of the necessary support policies.

(Gebremariam, 2004) in the study “The Role of Small Business in Economic Growth and Poverty Alleviation: An Empirical Analysis” says that in this research, time-series data from 1980 to 2001 are used to investigate the link between small company creation, “economic growth, and poverty alleviation in West Virginia. OLS and 2SLS are used to regress four double-log form econometric equations. The results of these regressions reveal that: 1) There is a strong, positive relationship between the relative size of small businesses and economic growth, even after adjusting for simultaneity bias and a variety of other growth-determinant variables; 2) There is a strong, negative relationship between the relative size of small businesses and the prevalence of poverty.” 3) There is a strong, negative relationship between the per capita growth of real gross domestic product and the relative size of small businesses Small company development thus primarily combats poverty via influencing the economy's growth, as stated in (4). The empirical finding demonstrates the relationship between small company development, economic expansion, and reduction of poverty.

(Agrawal, 2009) in the study “The Impact of Economic Reforms on Indian Manufacturers: Evidence from a Small Sample Survey says that although there has been a great deal of speculation about the effects that India's economic reforms in 1991” had on Indian manufacturers, very few studies have actually asked manufacturing companies directly about the ways in which the economic reforms have had an effect on their businesses. In this article, we describe the results of a survey that was conducted with a small sample size of manufacturing businesses in the Delhi area on their assessments of the influence that the economic reforms of the 1990s had on their businesses. The majority of businesses believed that the changes were beneficial since they facilitated easier access to foreign technology and reduced the cost of importing capital and intermediate products. They were also of the opinion that the expansion of India's manufacturing sector would benefit from an upgrade in infrastructure as well as more flexible labour rules.

(Hotta et al., 2012) in the study “An Empirical Study on the Impact of Duplicate Code” says that it is said that One of the things that makes software maintenance more challenging is the existence of duplicate code. On the basis of this, several research projects have been conducted on finding, getting rid of, or managing duplicate code. In recent years, several scholars have cast doubt on this foundation and have carried out empirical investigations to look into the impact of duplicate code. We perform an empirical investigation in this study to analyse this issue from a new angle than earlier studies. To assess the effect of duplicate code and

compare its values to non-duplicate code, we establish a new indicator in this research called "modification frequency." The following describe the study's characteristics. We employ numerous duplicate code identification tools to eliminate detection tool biases, the indicator used in this research is based on modification locations rather than the ratio of changed lines, and we compare the proposed method's findings to those of the other two inquiry approaches. The outcome demonstrates that duplicate code is often updated less frequently than non-duplicate code, and we discovered several cases where the suggested approach can more effectively assess the effects of duplicate code than the current study techniques.

("Krishna Gopal Gokhle & Taehwang Kim, 2013) in the study *Impacts of Economic Reforms on Small - Scale Industries in India*" says that The Indian government has been urging many measures to help small-scale companies (SSI). While some improvements are advantageous, others have caused SSI in India to face a number of challenges. In order to evaluate the effectiveness of SSI, this article will look at a variety of pre- and post-liberalization-era variables, including the number of units produced, exports, and productivity per employee. To assess the efficacy with which the nation's SSI policies have been implemented since economic liberalisation, "the growth rate and location quotient of the Indian SSI are estimated before and after the reform period (1973-2007). The influence of the Indian economic reforms on the growth rate of SSI in terms of output, production, employment, and units" is then explored. There was an increase in SSI concentration in and around the main cities after the economic reforms. As a result, less focus is being placed on the SSI to eliminate regional inequities.

(Kaur, 2016) in the study "Impact of Economic Reforms on Small Scale Industry of Punjab" says that This research was conducted using secondary data over a period of 35 years, beginning in 1980–1981 and ending in 2014–2015. The time period under consideration is split into two parts: the pre-reform era (1980–1981) and the post-reform era (1991–present) (1991-92 to 2014-15). We are all aware that throughout the decade of the nineties, the nation had a serious economic crisis. The next step is the implementation of structural changes like as liberalisation, privatisation, and globalisation. The most important purpose of these changes was to make it possible for the Indian industry to experience fast expansion. After almost 25 years of these economic changes, the purpose of this article is to make an effort to conduct an analysis of the performance of Punjab's small-scale industry.

(Phule Assistant Professor, 2018) in the study "Small Scale Industries and their contribution in Socio-Economic Growth of India: - An Empirical Study" says that in a nation like India, there has always been a strong consensus in favour of the role that small-scale industries play, for a variety of reasons, including employment, equality, latent resource, trickling effect, insurance against social tension, distributive effect, creation of social ecosystem, and decentralisation, etc. The creation of opportunities for self-employment and the accumulation of money are two further points in support of this position. The study of SSIs has garnered a lot of interest from a wide variety of economists. The success of the small-scale sector may have a direct bearing on the expansion of the economy as a whole in terms of the number of units, output, employment, and exports. To have a better understanding of its place in the overall economic growth of the nation, it can be helpful to consider its function.

(Thampi Surya, 2021) in the study "Economic Reforms and its impact on performance of Micro, Small and Medium Scale Industries in India" says that the small-scale industrial sector is becoming a significant part of the Indian economy. Small-scale industries have a significant potential for creating jobs in semi-urban and rural areas, which is critical for alleviating developing countries' widespread unemployment problems. Reforms were intended to uplift these industries and improve their working conditions. The present study is an attempt to find the impact of reforms on MSME's. The analysis divides the study into two parts with respect to four indicators. As per the time series analysis it is found that even though this sector has attained continuous growth, the CAGR of post reforms is less than the pre-reforms period.

## 8. Analysis and finding:

### 8.1 Role of Small-Scale Industries in Indian Economy

**Table 1.1 Contribution of MSMEs in country's Economy at current price**

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share in MSME in GDP (%)
2011-12	2583263	-	8106946	31.06	8736329	28.39
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	09.43	11481794	31.86	12445128	29.39
2015-16	3936788	07.62	12458642	31.60	13682035	28.77

(\*GVA = Gross Value Added)

Figures in Crores

("Source: - Annual Report 2017-18, Ministry of Micro, Small and Medium Enterprises Government of India)

### 8.2 SSI Contribution in Employment Generation:

As per the national sample survey (NSS) 73rd round conducted during the period 2015-16, MSME sector had been creating 11.10 crore jobs in the rural and the urban areas across the country.

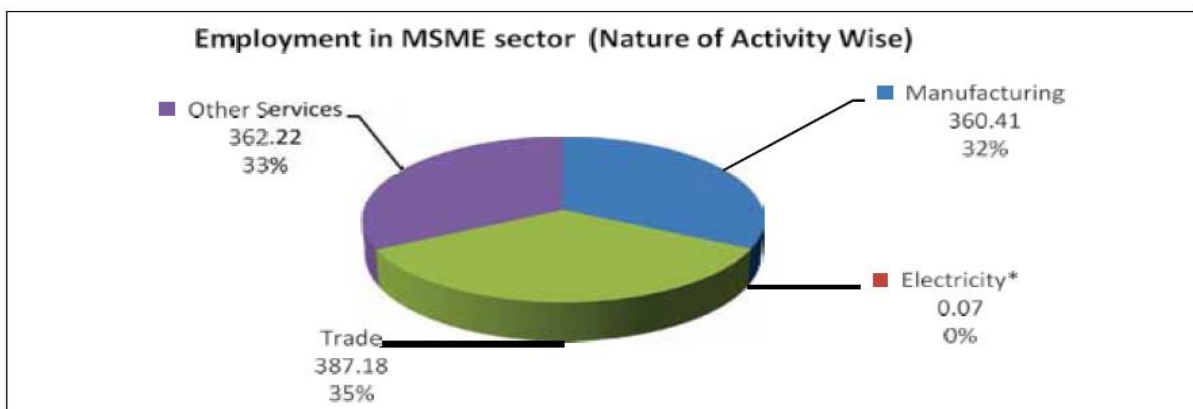
**Table 1.2 SSI Contributions in Employment Generation**

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

\*Non -Captive Electricity generation and Transmission

(Figures in Lakhs)

Chart 1.1



Source:- <https://msme.gov.in/sites/default/files/Annualrprt.pdf>

In this regard, it can be observed that the vast majority of India's population is either directly or indirectly associated with agriculture or their allied sector, and that small-scale industry” provides a significant amount of support for the generation of

employment opportunities in rural as well as urban areas. Because of the nature of the local industry About 45 million rural women throughout India have been motivated to launch new businesses, and because to the efforts of Small Sale Industries, these women now have the skills, access to funding and markets, and other resources they need to be successful. The nation's economic growth is helped along by the proliferation of small-scale industries, which act as a catalyst. It is one of the most significant regions for the accumulation of capital. In point of fact, the efforts that entrepreneurs put forth are what ultimately lead to economic progress. In a similar vein, business owners may influence the rate of economic development by the activities and choices they make. Now, more and more people are coming to the realisation that in order to reach the objective of economic growth, it is vital to promote SSI in the nation on both a qualitative and quantitative level.

## 9. Conclusion: -

- 9.1 SSI employs labour demanding approaches. As a consequence of this, it provides job chances to a significant number of individuals. As a result, it helps alleviate the issue of high unemployment to a significant degree. Also, SSI gives employment to craftsmen, technically competent workers and professionals. Additionally, it offers job chances to those in India who are involved in the practise of traditional arts. SSI is responsible for the employment of persons in the rural and unorganised sectors of the economy.
- 9.2 SSI does not need to make use of complicated pieces of equipment. As a result, it is not essential to bring the machinery in from other countries. On the other hand, there is a significant amount of interest in the products that are manufactured by the small-scale industry. As a result, it eases the strain that has been placed on the nation's balance of payments. Through its operations in India, SSI generates significant amounts of precious foreign currency.
- 9.3 It helps to build a class of entrepreneurs in the society. It assists those who are looking for work to find work for themselves. It encourages people to work for themselves and fosters an attitude of self-reliance among the general population. The growth of India's small-scale enterprises contributes to the country's rising average income per person in a number of different ways. It makes it easier for underdeveloped regions and groups of society to progress toward their goals of modernization.

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