



## **PROGRESS & PROSPECTS OF SMALL SCALE SECTOR IN INDIA**

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### **INTRODUCTION**

The supreme objective of economic development of any developing country like in India is to raise the standard of living of the people and economic welfare of the society and it involves an inevitable shift away from agriculture in favour of manufacturing, transport and communications etc. The structural shift which results in a reduction in the share of agriculture in national income and employment and a corresponding improvement in the share of manufacturing and service sectors is a historically observed fact of economic development<sup>1</sup>. Economic Development of a country depends upon the creation of added values in agriculture, mining and industry through exploitation of natural resources. There is enough empirical evidences to show that industrialization which involves the development of manufacturing and other nonagricultural sectors, holds the key to economic development. Studies carried out by UNIDO<sup>2</sup> shows that “the most significant structural change accompanied by a fall in the share of agriculture and a rise in the share of manufacturing in a countries output is an index of Industrial development”.

Industrialization plays a greater role in the process of economic development in harnessing of natural resources of various types by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, and mobilization of capital and entrepreneur skills and contribution to nations wealth in the form of exports etc., and it is obvious that without industrialization the natural resources and inherent skills of the people remain unutilized or under utilised. “Industrialization is an economic and social process affecting not only the technological standards of the given country but also the habits of the consumers, the way of public thinking and the organization of the actions, process and events in the life of the given society”<sup>3</sup>. If the industrialization drive is to be successful it should be promoted upward from the grass-root level, further the most important pre-condition for the success of industrialization is that its basis must be widened geographically by giving priority to the expansion and modernization of agriculture and the development of small and medium sized small centres in rural areas<sup>4</sup>. The shift could be promoted effectively only if a strong and broad based institutional frame work is created to meet the various needs of the industrial sector. It is known fact that Industrialization can be hardly effective if the plan for industrial development do not receive the support of a combination of appropriate fiscal, financial, trade and general economic policies of the government.

### **SMALL SCALE SECTOR & ECONOMIC DEVELOPMENT**

Though many arguments for and against the promotion and development of small scale industries, it has been one of the main strategies for the economic development in the developing countries since 1950's, as this sector is widely recognized as a powerful instrument for attaining socio-economic growth and balanced sectoral development. The rational behind such an approach is small industries provides substantial scope for increasing employment as they are in labour intensive in nature and they require comparatively less capital; The development of small scale sector has also been one of the most significant and characteristic features of industrial development of India. A thrust and directive has accordingly been given by providing suitable policy frame work supported by institutional arrangements and extension services throughout the country from time to time over the years since independence.

The importance of small scale industries was specifically defined in the Industrial Policy Resolution, dated 6<sup>th</sup> April 1948<sup>5</sup>, “Cottage and small industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprises and means for rehabilitation of dispersed persons. These industries are particularly suited for the achievement of local self-sufficiency in respect of certain type of essential goods – the Resolution added, the healthy expansion of cottage and small industries depends on a number of factors such as the provision of raw materials, cheap power, technical advice, organized marketing for their products and where necessary, safeguards against intensive competition by large scale manufacturers, it also



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depends upon the education of the workers in the use of the best available techniques". The Industrial Policy Resolution 30, April 1956 also stressed the importance of Small Scale Sector in securing balanced regional development, provided the basic frame work for over all industrial policy of the Government<sup>6</sup> i.e., subsequent policy announcements of 1973, 1977, 1980,1985 and 1986 were by and large in the nature of minor changes in one or the other part or parts of the 1956 policy only, largely to meet the problems faced in the years when these changes were made but however in its essential the 1956 policy remained intact all these years.

The phase which started in 1991 with economic reforms could be termed as a period of confrontation because it was the phase of confrontation with challenges emerged out of Liberalization, Privatization and Globalization<sup>7</sup>. The protection enjoyed so far was drastically reduced through de-licensing, reduction in excise and custom duty rates and placement of several items on Open General License (OGL) list and it brought the sector face to face with competition. For the first time, a separate policy for SSI development was announced in 1991 whose primary objective was to impart greater vitality and growth to this sector. The Industrial policy 1991 makes a big departure from the old policies and thus it was announced in two stages rather in two parts. The first part, announced on 24<sup>th</sup> July 1991 concerned with large and medium scale Industries, as a sequel to that Government had announced policy measures for promoting and strengthening Small, Tiny & Village enterprises on 6<sup>th</sup> August 1991. As per this policy statement the primary objective of the small scale industrial policy during nineties would be to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy particularly in terms of growth of output, employment and exports etc., promotion of entrepreneurship particularly among women, enactment of a suitable legislation to ensure prompt payment of small industries bills, introduction of Limited Partnership Act to enhance supply of risk capital to small scale sector, implementation of special schemes for modernization, technology up gradation and quality control, equity participation by other Industrial undertakings in small scale industries not exceeding 24 percent of the total share holding, to provide access to the capital market widening the scope of the National Equity Fund scheme and single window scheme, integrated infrastructure development are some of the measures outlined in this regard and above all rules and procedures applicable to small scale units would be further simplified<sup>7</sup>.

The enactment of the Micro, Small and Medium Enterprises Development Act on 2<sup>nd</sup> October 2006<sup>8</sup> has been a land mark step towards promotion and development of micro, small and medium enterprises in India. The Act not only aims at increasing the competitiveness of such enterprises in the present global era but also provides for timely recovery of dues of micro and small enterprises along with interest in the case of late payment by the buyer. The Act has given wide powers to National Board for Micro, Small and Medium Enterprises established under this Act, to review the policies and programmes of the central Government with regard to facilitating the promotion, development and enhancing the competitiveness of such enterprises. The board vests powers to make recommendations on any matter referred by Central Government. Further, the Act has now broader scope than the previous Act namely; the Interest on Delayed Payments to Small Scale and Ancillary Industrial undertaking Act 1993, which deals with only interest on late payments by the buyer, the Act has been repealed. The word small scale undertaking has been substituted by the word enterprise. Further the enterprises have also been classified into manufacturing enterprises and service enterprises and brought service enterprises on par with manufacturing enterprises and the definition for such enterprises were also framed accordingly.

### **CONCEPTUAL FRAMEWORK OF SMALL SCALE SECTOR**

Though many developing countries have encouraged small enterprises but however there is no one definition of small Industry. It varies from country to country, even in India the concept has been moved from labour to capital. Small Industries in India are grouped under the general heading of village and small industries and this sector is further split up into seven sub sectors namely Khadi and village Industries, Hand looms Sericulture Handicrafts, Coir, small scale industries and power looms, of these the first five sub sectors constitute an unorganized traditional industries and the last two, the modern small scale industries and power looms use modern technologies and are mostly urban oriented, unorganized traditional industries on the other hand are mostly rural and semi-urban in character.



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The small scale industries Board at its first meeting held on 5<sup>th</sup> and 6<sup>th</sup> January 1955<sup>9</sup>, adopted the first working definition of small scale industrial unit as “A Unit employing less than 50 persons, if using power and less than 100 persons without the use of power per shift basis and with capital investment not exceeding Rs.5 lakhs, investment in capital consists land & building and machinery & equipment etc., a revision has been made on 18<sup>th</sup> March 1959<sup>10</sup>, introducing multiple shift basis, deleting the per shift criterion, thus the scope of assistance was enlarged to cover the units working on bigger programmes on multiple shift basis, further dropping the employment criteria wholly on January 1960, small scale industries will include all industrial units with a capital investment of not more than Rs. 5 lakhs, irrespective of the number of persons employed. To begin with, industries engaged in the production of ancillary items and components, required by the large industries, Ancillary unit concept was introduced and for those units ceiling limit was fixed at Rs. 10 lakhs. From 1966 onwards small scale industries have been defined in terms of the upper ceiling of investment in plant of machinery (original value), in 1966<sup>11</sup> the small scale enterprises were defined as undertakings with a fixed capital investment of less than Rs. 7.5 lakh and Rs. 10 lakh for ancillary units.

The Industrial Policy Statement of May 1991, the investment ceiling in plant & machinery for small scale industries has been raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs<sup>12</sup>. During 1997, on the recommendation of Abid Hussain Committee, the Government has raised the investment limit on plant & machinery for small units and ancillaries from Rs. 60/75 lakhs to Rs. 3 crores, subsequently in 2000 the government has reduced the investment limit on plant and machinery from Rs. 3 crores to Rs. 1 crore. Until now, the Government had defined small scale industries and within the small scale it provided a definition of tiny enterprises however, from the small scale, there was direct shift to large scale units and no definition was provided for medium scale enterprises. With effect from October 2, 2006 not only the three categories have been clearly defined but provided a clearcut definition for these industries, Micro or tiny enterprises would cover all enterprises with investment in plant and machinery of less than Rs. 25 lakhs; for small enterprises with investment between Rs. 25 lakhs and Rs. 5 crores and for medium enterprises with investment between Rs. 5 crores and Rs. 10 crores<sup>13</sup>.

It can be observed that in course of 60 years after independence the definition of small industry has been modified in several times and has been deliberately done by the government keeping in view of the price escalations and for the priorities and strategies laid down for the development of this sector to play a more effective role in the industrial development of the country. The Small Scale sector has been widely acclaimed for its undisputable role in production, employment generation, exports etc. It may be small in size and operation, but in term of its contribution as a whole this sector comes out as a bigger player in the national economy.

### **GROWTH & PROGRESS OF SMALL SCALE SECTOR IN INDIA**

Table 1.1. Shows data relating to growth of small scale industries in India during 1980-81 to 2013-2014. It is observed that between 1980-81 and 2013-2014 the number of small scale units increased by 6 times from 8.74 lakhs to 54.00 lakhs, employment by 4.2 times from 71.00 lakh persons to 213.65 lakh persons and production by 31.6 times from Rs.28,060 crore to Rs.10,36,437 crore. During the period 1980-81 to 2013-2014 investment increased by 12.9 times from Rs.5,850 crore to Rs. 75,654 crore and exports by 45.6 times from Rs. 1,643 crore to Rs. 74,857 crore. Share of SSI exports in total exports has gone up 24.5 percent in 1980-81 to 45.6 percent in 2013-14. The average investment per unit which stood at Rs. 66,934 in 1980-81 has gone upto Rs.1,34,571 by 2013-2014, showing an over all increase of 92 percent. But the average employment per unit has gone down from 8.12 persons in 1980-81 to 5.43 person in 2013-2014, showing a decline of 26 percent during the period. The average production per unit registered an increase of 576 percent (from Rs. 3,21,053 in 1980-81 to Rs. 32, 56,654 in 2013-2014). The average exports has gone up by 918 percent (from Rs. 18,799 in 1980-2001 to Rs.2,59,571 in 2013-2014). Thus a significant progress has been achieved by small scale industries in India during the last two decades as indicated by liner growth rates and compound growth rates see Table 1.1.

**Table - 1. Progress of Small Scale Sector in India  
(Units, Production, Employment, Investment and Exports)**

S. No.	Year	No. of units (Lakhs)	Employment (Nos. in Lakhs)	Investmet (Rs. Crores)	Production at current prices (Rs. Crores)	Export (Rs. Crores)	Share in total exports (percent)
1	1980-81	8.74	71.00	5850	28060	1643	24.5
2	1984-85	8.98	75.00	6280	32600	2071	26.5
3	1987-88	10.59	79.00	6000	35000	2045	23.2
4	1990-91	11.58	84.10	7360	41620	2164	22.1
5	1994-95	12.48	90.00	8380	50520	2553	21.7
6	2000-01	16.12	96.00	9585	61228	2769	25.4
7	2001-02	19.76	101.40	10975	72250	3617	29.3
8	2002-03	21.76	107.00	12621	87300	4345	28.8
9	2003-04	23.12	103.00	15229	106875	5681	28.1
10	2004-05	25.27	119.60	18196	132320	7990	28.9
11	2005-06	29.38	124.30	19302	155340	9100	28.2
12	2006-07	30.82	129.80	20438	178699	13883	31.5
13	2007-08	32.46	134.10	21816	209300	17785	33.1
14	2008-09	33.85	139.40	22934	241648	25307	36.3
15	2009-10	35.71	146.60	24874	2,93,990	29068	35.2
16	2010-11	41.24	152.60	26726	3,56,213	36470	34.3
17	2011-12	43.60	160.00	30250	4,12,640	39250	33.4
18	2012-13	48.10	167.50	33455	4,65,257	44442	33.0
19	2013-14	54.00	213.65	75,654	10,36,437	74,857	45.6

*Source: Government of India, "Small Industries in India" - Hand book of statistics, Small scale Industries Development Commissioner, New Delhi, 2014.*

## CONCLUSION

Industrial sector is complex, the needs are complicated too, hence the process of economic development through industrialization involves the provision of new methods of production institutional arrangements to encourage enterprises and investment, development of social and economic infrastructure, transport and communications, power and training facilities for enlarging vocational and managerial skills etc. Developed infrastructure is a catalytic agent for industrial development, it is the dynamising factor in backward areas and functions as an incentive to level out the regional differences. Absence of infrastructure facilities like road, rail, communication network etc., has been a principal deterrent factor in the optimum exploitation of the states wealth. Growth of a network of infrastructure is an essential pre-requisite for rapid industrialization and certainly will speed up the tempo of industrialization.

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