

International Journal of Enterprise Computing and Business Systems

ISSN (Online) : 2230-8849

<http://www.ijecbs.com>

Vol. 1 Issue 2 July 2011

PROMOTION OF SMALL SCALE INDUSTRIES - A Panoramic View

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ABSTRACT

The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. By less capital intensive and high labour absorption nature, SSI sector has made significant contribution to employment generation and also rural industrialization. Under the changing economic scenario, SSI has to face number of diverse problems like vast population, large scale un-employment and underemployment and scarcity of capital resources and the like. Hence, the government has been providing some special facilities through different policies and programmes to overcome the problems and for the growth and development of small scale industries. The efforts of the government have resulted in the phenomenal increase in the number of units in the small scale sector. The government also introduced various schemes and incentives for the promotion of SSIs. Constant support to SSI sector by the Govt. in terms of infrastructure development, fiscal and monetary policies have helped to emerge as dynamic and vibrant sector of Indian economy. Over the past five decades, Government policies and schemes have been to protect the interests of the SSIs and facilitate its rapid development from time to time.

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Historically, villages in India have been self reliant. Every village used to have its own cottage and small industry which fulfilled the requirement of the villages. Not only these, small scale industries were also exported products all over the world specifically to South Asia, Arab, and Central Asia. Since the time of independence, small scale industries received special privileges in the Indian economic system. The successive Indian Government encouraged small scale industries to transfer the economic power to the grass root levels, to generate employment, to have balanced regional growth, and to check concentration of wealth. Small scale sector has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification. Hence, by less capital intensive and high labour absorption nature, SSI sector has made significant contribution to employment generation and also rural industrialization.

The Small Scale Sector owes its definition to the Industries (Development and Regulation) Act, 1951. The Sector is defined in terms of investment limits in plant and machinery (original value), up to a prescribed value. It comprises a wide divergent spectrum of industries, ranging from the micro and rural enterprises, using rudimentary technology on the one hand to the modern small scale industries using sophisticated technology on the other.

DEFINITION OF SSI SINCE 1950

The definition of small scale industries has undergone changes over the years in terms of investment limits in the following manner:

Year	Investment Limits	Additional Conditions
1950	Upto Rs.5.0 lakh in fixed assets	Lessthan 50/100 persons with or without power
1960	Upto Rs.5.0 lakh in fixed assets	No condition
1966	Upto Rs.7.5 lakh in Plant & Machinery	No condition
1975	Upto Rs.10 lakh in Plant & Machinery	No condition
1980	Upto Rs.20 lakh in Plant & Machinery	No condition
1985	Upto Rs.35 lakh in Plant & Machinery	No condition

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1991	Upto Rs.60 lakh in Plant & Machinery	No condition
1997	Upto Rs.300 lakh in Plant & Machinery	No condition
1999	Upto Rs.100 lakh in Plant & Machinery*	No condition
2001	Upto Rs.100 lakh in Plant & Machinery*	No condition

* With effect from October 2001, the investment ceiling in Plant & Machinery in respect of 41 items covering two broad groups of Hosiery & Hand Tolls has been enhanced to Rs. 500 lakh.

Now-a-days Indian Small Scale Industries are mostly modern small-scale industries. Modernization has widened the list of products offered by this industry. The items manufactured in modern small-scale service and business enterprises in India include rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, hardware, electrical items, transport equipment, electronic components and equipments, automobile parts, bicycle parts, instruments, sports goods, stationery items and clocks and watches.

This paper highlights the importance of evolution of different definitions of SSIs in India over the years and its contribution to the economy in India and to find out its strengths, weaknesses, threats and opportunities.

OBJECTIVES

1. To find out SSIs contribution to the economy in India.
2. To find out the strengths, weaknesses, threats and opportunities of Indian Small Scale Industries.

METHODOLOGY

The data has been collected from secondary sources comprising of MSME annual reports and Ministry of Commerce, Government of India from the period from 2000-01 to 2008-09. The collected data has been classified and analysed in a systematic manner. For analysis, statistical tools like Percentages, Annual growth rate are used to find out the objectives of the study.

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GROWTH OF SSIS IN INDIA

year	SSI UNITS (Lakh in number)	INVESTMEN T (Rs.in crores)	PRODUCTIO N (Rs.in crores)	EMPLOYMEN T (Lakh persons)	EXPORT (Rs.crores)
2004-05	118.59	178699	429796	282.57	124417
2005-06	123.42	188113	497842	294.91	150242
2006-07	261.01	500758	709398	594.61	182538
2007-08	272.79	558190	790759	626.34	202017
2008-09	285.16	621753	880805	659.35	--NA--

Source : MSME annual reports 2009-2010 accessed from <http://www.msme.gov.in>

Note : NA - Not Available.

From the above Table, it is observed that the total number of Small Scale Industries in India has increased from 118.59 lakhs in 2004-05 to 285.16 lakhs in 2008-09. During the same period, the investment has increased from Rs. 178699 crores in 2004-05 to Rs.621753 crores in 2008-09. Coming to the production and employment front also, there has been a steady increase in the over all performance from Rs. 429796 crores and 282.57 lakh persons in the year 2004-05 to Rs. 880805 crore and 659.35 lakh persons in 2008-09 respectively. The export front from SSI Sector was Rs. 124417 crore in 2004-05, which increased to Rs. 202017 crore in 2007-08. From the above data it is to be found that the percentage increases in number of SSIs i.e., 140.46 per cent which results more or less the same in the percentage of employment i.e., 133.34 per cent. This indicates the standard of living of the people some what extent can be raised by the increase in number of SSI units by proving employment which in turn result the increase in national economy.

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PROGRAMMES AND SCHEMES FOR PROMOTING SSI SECTOR

The government has introduced various policies and incentives for promotion of SSIs. The significant rise in the number of SSIs reflects that, it has been comparatively easier to establish a small enterprise as it requires a less amount of investment both in fixed and flexible capital assets. The small enterprises are growing at a much faster rate and thereby creating potentials for output, employment and exports. The scope for their growth has been enhanced greatly due to the adoption of more liberalized policy measures.

- *Reservation of Items for SSIs*
- *Vendor Development Programs*
- *Subsidies*
- *Incentives in Operations*
- *Ancillarisation*
- *Mini Tool rooms*
- *Testing Centres*
- *Sub - Contracting Exchanges*
- *Assistance Program Credit Guarantee Scheme*
- *Market Development Assistance Scheme*
- *Laghu Udyami Credit Card (LUCC) Scheme*
- *Scheme on Surveys, Studies and Policy Research*
- *Trade Related Entrepreneurship Assistance & Development for Women (TREAD)*
- *Sub-Contracting Exchange for Ancillary Development*
- *Credit linked Capital Subsidy Scheme for Technology Up gradation*
- *ISO-9000 Certification Reimbursement Scheme*
- *Participation in International Fairs*
- *Purchase and Price Preference Policy*
- *Small Industry Cluster Development Programme*
- *Integrated Infrastructure Development (IID Scheme)*
- *National Entrepreneurship Development Board (NEDB)*
- *Composite Term Loan Scheme*

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INSTITUTIONAL SUPPORT FOR SMALL SCALE INDUSTRIES

Constant support to SSI sector by the Government in terms of infrastructure development, fiscal and monetary policies have helped this sector to emerge as dynamic and vibrant sector of Indian economy.

- Small Industries Development Organisation (SIDO)
- National Small Industries Corporation (NSIC)
- SSI Board
- National Institute of Small Industry Extension Training (NISIET)
- National Institute for Entrepreneurship & Small Business Development (NIESBUD)
- National Research Development Corporation (NRDC)
- Small Industrial Bank of India (SIDBI)

SUPPORT FROM STATE / INDUSTRY ASSOCIATIONS

At the State level, concerned Commissioners/Directors of Industries implement policies for the promotion and development of small scale, cottage, medium and large-scale industries. The Central policies for the SSI sector serve as the guidelines, but each State evolves its own policy and package of incentives. The State departments also oversee activities of the field offices, viz., District Industries Centres (DICs).

In addition, at the **State level** includes State Financial Corporations, State Small Industrial Development Corporations, and Technical Consultancy Organisations operate to assist the promotion and development of SSIs. Other **regional level** agencies include State Infrastructure Development Corporations, State Cooperative Banks, Regional Rural Banks, State Export Corporations, Agro Industries Corporations and Handloom and Handicrafts Corporations. At the **grass root level**, NGOs play an important role for the development of tiny and cottage units. Industry Associations provide support to the SSI sector and offer a common platform to raise industry-related issues. Government policies, in recent years, have stressed the increasing role of Industry Associations in the setting up of common facilities and other ventures in the area of technology, marketing and other support services.

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Industry Associations also impart institutional support to the small scale sector. Some of the major associations like Confederation of Indian Industry (CII); Federation of Indian Chamber of Commerce and Industry (FICCI); PHD Chamber of Commerce and Industry (PHDCCI); Associated Chamber of Commerce & Industry of India (ASSOCHAM); Federation of Indian Exporters Organisation (FIEO); World Association for Small & Medium Enterprises (WASME); Federation of Associations of Small Industries of India (FASII); Consortium of Women Entrepreneurs of India (CWEI); Laghu Udyog Bharati (LUB); Indian Council of Small Industries (ICSI) etc. have been helping and motivating SSI entrepreneurs.

SWOT ANALYSIS

A detailed SWOT analysis paves the foundation stone for taking strategic decisions. It helps to identify the areas where proper care should immediately be taken and at the same time, identifies the areas of competitive edge. The respective Strengths, Weaknesses, Opportunities and Threats are identified for Indian SSIs which will form guidelines for the policy makers.

STRENGTHS

Small Scale Industries are the backbone of the Indian Economy. By considering the employment generation and export generation, the following are some of the strengths of Indian SSIs.

- ❖ Easy to Start an SSI which requires very less capital.
- ❖ SSI contributes 45 per cent of manufacturing output.
- ❖ It creates nearly 6.5 crore employment.
- ❖ Employs local people, particularly illiterate and semi- literate and reduces the regional imbalances.
- ❖ Produces goods for downtrodden people, especially for those below the poverty line.

Outlook towards the Small Scale Industries is very much important. The premises for such

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an outlook is essential for Indian SSIs to combat the challenges ahead, are outlined as a) SSIs continue to be the thrust area for Government policies. b) The growing economy and the tremendous market potential of the country depend on the sustained growth of SSIs in the country. c) Avenues for employment and decentralized industrial development. d) SIDBI as the apex institution will continue to play its key role in facilitating timely and adequate credit besides meeting the developmental needs of the sector.

WEAKNESSES

The following are some of the weaknesses identified among Indian Small Scale Industries

- Encroachment of SSIs by Medium and Creamy layer industries.
- Infrastructural problems like high power tariff, insufficient export infrastructure.
- Inflexible labour markets.
- Regulatory hassles both at entry and exist stages.
- Insufficient finance at affordable terms.
- Demand for International Quality Standards in the WTO regime, Cost Reduction by Customers and other barriers.
- Need of Fund for Modernisation and technology up gradation.
- Stringent Statutory laws of Government.
- Exploitation by major industries.
- Increase of MNCs with Modern Technology & machines.

OPPORTUNITIES

After the introduction of trade liberalization and globalization, increased competitive pressures and reduced direct subsidies and relaxed protectionism from the clutches of governments, strengthening of SSIs for export competitiveness becomes the dire need in the developing countries like India. No doubt, in India the SSIs with their dynamism, flexibility and innovative drive increasingly focusing on improved production methods, penetrative marketing strategies and management capabilities to sustain and strengthen their operations, their share is only 30.8 per cent of total exports as on 2007-08 which are about

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34.28 per cent of total exports as on 2000-01 and reduced by 3.48 per cent from 2000-01 to 2007-08. From the Table-4, it is evident that the share SSIs exports to total exports have been constantly reduced over the years i.e., from 2000-01 to 2007-08 . Their performance in items like Ready made garments, Leather goods, Processed food, Engineering items has been commendable both in terms of value and their share with in the SSI sector, than the other sectors.

In view of this, export promotion from the SSIs sector has been accorded high priority in India's export promotion strategy, which includes simplification of procedures, incentives for higher production of exports, preferential treatments to SSIs in the market development fund and simplification of duty drawback rules. They are thus poised for global partnership to absorb and more importantly to impart latest technologies in diverse fields. Drawing from the experiences of countries that have successfully promoted the export competitiveness of SSIs the points lay down the strategy for Indian SSIs to achieve their export potential and make them increasingly export oriented. Promoting the export competitiveness of SSIs needs the active involvement of various stakeholders like Government, the private sector and the International community.

THREATS

The constraints for the SSIs in India for export competitive include product reservations, regulatory hassles— both at the entry and exit stages, insufficient finance at affordable terms, inflexible labor markets and infrastructure related problems - like high power tariff, and insufficient export infrastructure. The following were identified as the greatest obstacles to the internationalization of SMEs by UNICEF.

.Lack of entrepreneurial, managerial and marketing skills.

- ❖ Lack of accessibility to investment.
- ❖ Lack of government incentives for internationalization of SMEs.
- ❖ Lack of accessibility to information and knowledge.
- ❖ Competition of indigenous SMEs in foreign markets

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- ❖ Difficulties accessing financial resources/Lack of capital.
- ❖ Non-conformity of standardization, lack of quality awareness and lack of mutual recognition schemes.
- ❖ Inadequate behaviors of multinational companies against domestic SMEs/Lack of government supply-supporting programs.
- ❖ Product and service range and usage differences.
- ❖ Risks in selling abroad.
- ❖ Language barriers and cultural differences..
- ❖ Complexity of trade documentation including packaging and labeling.
- ❖ Inadequate intellectual property protection.

POLICIES RECOMMENDED BY RBI

The Standing Advisory Committee under the Chairmanship of the Deputy Governor, RBI has been critically reviewing the flow of institutional credit to the SSI Sector from time to time. Based on this Committee's decisions, the banks were advised by the RBI to take necessary steps with regard to:-

- [1] Fixation of self –set target by the banks for SSI.
- [2] Enhancement of composite loan limit for SSI from Rs. 25 lakh to Rs, 50 lakh.
- [3] Incorporating credit requirement in the identified clusters in the banks' Annual Credit Plans for the year 2003-04.
- [4] Adequate publicity by the banks to various schemes/facilities extended to SSI sector like availability of collateral-free/composite loan.
- [5] As per the announcement made by the Hon'ble Finance Minister in the Union Budget 2003-04, India Bank' Association (IBA) has advised the banks to adopt the interest rate band of 2% above and below their prime lending rates (PLRs) for advances to SSI.
- [6] The RBI has informed that majority of public sector banks have issued necessary instructions regarding adoption of interest rate band of 2% above and below their PLR for SSI/tiny units, enhancing composite loan limit for SSI from Rs, 25 lakh to Rs.50 lakh, and have fixed self-set targets for growth in

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advances to the SSI sector based on the previous year's achievement.

- [7] A meeting was convened on 19.12.2003 with the CMDs of the banks to review the steps required for improving the flow of credit and bankers' confidence in SSI lending and enhancing awareness on facilities/incentives/guidelines of the banks were deliberated/emphasized in the meeting.
- [8] Ministry of SSI has requested the banks to circulate the instructions issued by the RBI to all their branches for compliance, monitor the steps taken by the branches on these instructions on quarterly basis and post the instructions on banks' websites for disseminating information among the prospective entrepreneurs.
- [9] Finance Minister announced on 9th January, 2004 creation of a Small and Medium Enterprises (SME) Fund under SIDBI, initially of Rs. 10,000 crore to address inter alia the problem of inadequacy of financial resources at competitive rates for the Small Scale Sector.
- [10] Laghu Udhyaami Credit Card (LUCC) Scheme has been liberalized by enhancing the credit limit from Rs. 2 lakh to Rs. 10 lakh, for borrowers who have a satisfactory track record.
- [11] The RBI has constituted a working group on Flow of Credit to SSI sector under the chairmanship of Dr. A.S. Ganguly, Director, and Central Board of the RBI as per the announcement made by the Governor, RBI in the Mid-Term.

SUGGESTIONS

The following suggestions and requirements are recommended for the growth of SSIs in India.

- ✓ Definition of SSIs based on the Turnover limit along with the fixed assets.
- ✓ Single Taxation Law each for all Direct and Indirect Taxes.
- ✓ Single Comprehensive Labour Policy.
- ✓ Reservation (Procurement) Policy - Price Preference and Purchase Reservation

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should be continued for SSIs.

- ✓ Compulsory Registration for SSIs and thereby creating authenticated data and statistics on SSIs.
- ✓ Benchmarking of SSI Associations and compulsory registration of SSI units with such Associations.
- ✓ Quality Improvements - Testing Centres and Laboratories and availability of various standards specifications.
- ✓ Infrastructure development like work sheds, etc. at affordable cost including practical rule.
- ✓ Updated Industrial Training Centres in all districts for industrial needs.
- ✓ Maintaining Stability of Raw material prices.
- ✓ Credit Flow and Awareness of schemes among SSIs.
- ✓ Promotion of Clusters.
- ✓ Sick Unit Rehabilitation Scheme.
- ✓ Easy Exit Policy for SICK Units.

CONCLUSION

The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. Small scale industries are discussed all over the states and they satisfy local demand. Thus they play a critical role in the development of regions. The government announced some policies and programs to support entrepreneurs of handlooms to sustain employment in rural areas and to improve the quality of life for handloom weavers. Various steps were taken to improve credit flow to SSIs, the government has also introduced various schemes and incentives for the promotion of SSIs and provide institutional infrastructure for SSIs through Small Industry Development Organisation (SIDO), and National Small Industries Corporation (NSIC) Ltd. Technology Resource Centres (TRC) provide latest and right technology for attaining global reach by SSI units.

SSIs which account for about 45 percent of the manufacturing output and form the backbone

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of industrial development in India now are not export competitive and contribute only about 34.08 per cent of exports as on 2007-08. Boosting the contribution of SSIs in total exports of India is vital to India's future economic growth, which can be promoted in the following manner. Policy intervention for SSIs could be particularly export-effective when it is based on the Triple C (Customer oriented, Collective and Cumulative) However, it is also essential to create and sustain a business environment that reinforces the international competitiveness of the export sector as a whole. This can be achieved by active collaboration between governments, the private sector and international agencies with a view to reaping the significant potential benefits of exports through SSIs.

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