

The Role of Small-Scale Industries in Indian Economy -An Overview

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Abstract

The aim of the article is to give an overview of small scale industries and their role in Indian economy. The article explores the need and importance of small industries in providing employment output and their growth over a period of time compare to large industries and need of the hour to give utmost preference to visualise and ensure the balanced sustainable inclusive growth in real sense, it also suggest the economics of scales while increasing the small industries.

Key words – Small scale industries, Employment and output, Economy

Introduction

Industrialization is accepted as the most predominant component of the development strategies in the third World countries as it injects dynamism in the growth process. It is associated with technical progress and increasing labour productivity resulting in higher levels of national income and employment. It is also considered as a means to transfer surplus labour out of agriculture to the modern industrial sector. But over a period of time the experience in the process of industrialization in these countries reveals that the growth of capitalist sector has not been successful in drawing the surplus labour out of agriculture. The development so achieved has not made any significant impact on their basic problem of poverty, unemployment and inequalities. Large enterprises in industry have not been able to produce adequate spread effects either in terms of the number of people benefiting from them or the geographical area covered. Therefore, it is now recognized that small enterprises are as

economical as large enterprises and in fact in some product lines they are even more economical on terms of capital investment, employment generation and output. Hence these countries have diverted their attention towards the development of small, tiny village and cottage industries to attain their basic objectives of development. In this context in recent years there has been added emphasis on small industrialization.

Background

After independence, economic development through small-scale manufacturing has been India's target. In the past, the different industrial policies stressed the development of the country's small industries. The Govt. In addition, numerous fiscal and financial compromises have been extended to grow retrograde industries. The organizational set-up to encourage small industrialization, however, was extremely disaggregated and was therefore unable to successfully support the mission of small industrialization. Therefore, an integrated approach to promoting rural industries needs to be developed through a "single window company" which could provide all kinds of assistance from pilot surveys to the promotion of the entry product.

This was visualized with the establishment of district industries centres in May first 1978 in the country. The structure of DIC's based on "Single Window Agency". These were introduced with a view to provide an integrated administrative frame work at the district level to promote effective development of small industries widely dispersed in rural and semi-urban areas.

Definitions of Micro, Small & Medium Enterprises

"In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two categories."

A. "Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use."

B. “Service Enterprises: The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.** The limit for investment in plant and machinery / equipment for manufacturing / service enterprises as under”

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed 25 lakh
Small Enterprises	More than 25 lakh but does not exceed 5 crore
Medium Enterprises	More than 5 crore but does not exceed 10 crore
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh but does not exceed 2 crore
Medium Enterprises	More than 2 crore but does not exceed 5 core

Small Scale Industries in India and other countries

“The definition of small scale industries in India is based on the criterion of capital investment. This is unlike many other countries like China, Germany, Indonesia, Iran, Turkey, etc., which go by the number of employees as the criterion for identifying small scale industries. In USA small business which has employment of less than 500 people, in UK are less than 200 workers, in Germany less than 300 workers, in Sweden and Italy less than 50 and 500 people respectively”.

Importance of Small Industries

The conspicuousness for Small-Scale Sector emanates from 2 basic premises of economic development policies viz. the 'balanced' development and 'sustainable' growth of the economy that involves certain minimum level of diversification of the economy. In developing economy with a predominant primary sector and agriculture looking on the monsoon, such a diversification needs to be within the direction of business sector generally and small-scale industry specifically. Though agriculture is that

the backbone of our economy and also the most significant contributor to gross domestic product, an excessive amount of dependence on this sector is unwise. In spite of the fact that immeasurable individuals depend upon agriculture, this sector is unable to soak up all and supply productive employment. There's a widespread disguised state during this sector. insight of this, there's a desire to diversify economic activities and shift the disguised from agriculture to different industries wherever they'll be fruitfully employed. SSI sector is one such sector that is labour intensive and therefore provides scope to soak up such labours.

Contribution of Small Scale Sector to Development of the Economy

Small scale and house industries in less developed countries (LDCs) unremarkably use around 80 % of the complete industrial hands of the country. But most of the worth adscititious variable from about 40 to 70 % habitually originates from solely few industries. They embrace food and beverages, jeweler and gems, animal skin and animal skin product, jute and jute product, textile, furniture, wood product and handicrafts indicating the slim base of the SSIs within the economy SSIs in a very advanced countries area unit found in a big selection of industries.

In India presently tiny scale industries account for ninety five % of the country's industrial units, 40 % of the commercial output, eighty % of the utilization within the industrial sector, forty % of total exports and 7 % of net domestic product.

Product Range of Small Scale Industries

Small-scale industrial sector comprises the spectrum of artisan / handicrafts units on the one hand and modern production units on the other, with significant investment generating a wide range of over 7,500 quality products on the other. Small-scale industries' products vary from simple to highly sophisticated technologies and provide opportunities for local resource and skill utilization. The small-scale industry has emerged as a major supplier to the large industrial sector of a range of mass production as well as parts and components. The SSI units produce, apart from handicrafts and other conventional goods, some high-value

added and sophisticated items such as digital typewriters, safety and fire alarm systems for electronic surveys, television sets and other equipment. Many products of the small equipment items are used by the manufacturers in the large industry sector. Small scale industrial sector has the flexibility of responding in varied needs of the economy.

Review of Literature

Following authors literature have been reviewed to know the depth of water of small industries in an economy

“a firms that marketing is the primary responsibility of small scale units and not that of the State because they are privately owned and marketing efforts depend essentially on the initiative of the owner or manager as said by (Vivek Deolankar) structural limitations like inadequate resources for production promotion and quality control as well as lack of marketing experience and know-how have kept marketing to a low profile. (Arvind Korba) cooperation among various small manufacturers engaged in allied lines of manufacture to pool together their resources, skill and ingenuity for an aggressive market promotion drive. (J.M.L. Tambi) marketing problems of small scale industries throws light on the inadequate efforts by government and other agencies in marketing of the products of small scale industrial units. He feels that National Small Industries Corporation has been helping small scale industrialists in a small way enlisting the major marketing problems of small scale industrial units as sales promotion and media advertising, distribution, credit sales, financial assistance, taxes on sales and exports. (D.B. Gosavi's) in the procurement and execution of government orders the accent should be on canalization of government purchase to the small scale sector to ensure that substantial proportion of the government purchases are made from small scale industries. (R.P. Singarvalu) Since Small Scale industries are likely to play a much more important role in employment generation in the coming years. The Payer is almond based on the data collected under the Second Census of SIDD Units. (M.L. Pandit) it is evident from the study that there is Vital role of small industries in an economy specially in providing employment and ensuring balanced growth.”

Growth Dimensions of Small Scale Industries in India

Growth of small scale industries in India is one of the most significant features of the planned economic development of the country. There has been a phenomenal growth of small scale industries during the last three decades from 1980-81 to 2010-11. There has been a more than hundred percent increase in the number of units during the decade of 80s from 8.7 lakhs in 1980-81 to 18.2 lakhs in 1989-90 though the annual growth rate slumped from 10.3% in 1981-82 to 6.4% in 1989-90. There has been a sudden spurt in the number of SSI units in 1990-91 to 67.9 lakhs registered a growth rate of 273.07% over the previous year. There was sustained but slow increase in the absolute number of SSIs during the decade of 90s from 70.6 lakhs in 1991-92 to 97.2 lakhs in 1999-2000. However the annual growth rate of SSI during decade slumped from 6.4% in 1989-90 to 4.06% in 1999-2000. There has been a slow but sustained increase in the number of SSIs during the current decade from 101.1 lakhs in 2000-01 to 128.4 lakhs in 2006-07. The annual growth rate is almost stationary at 4.01% in 2000-01 to 4.05% in 2006-07. 2006 to 2012-13 gradually increasing, the following table shows the details.

Table-1
Number of Small Scale Industries in India

Year	Total	Growth Rate
1980-81	8.7	-
1981-82	9.6	10.3
1982-83	10.6	10.4
1983-84	11.6	9.4
1984-85	12.4	6.8
1985-86	13.5	8.8
1986-87	14.6	8.1
1987-88	15.8	8.2
1988-89	17.1	8.2
1989-90	18.2	6.4
1990-91	67.9	273.07
1991-92	70.6	3.9
1992-93	73.5	4.1
1993-94	76.5	4.08
1994-95	79.6	4.05
1995-96	82.8	4.02
1996-97	86.2	4.10
1997-98	89.7	4.06
1998-99	93.4	4.12

1999-00	97.2	4.06
2000-01	101.1	4.01
2001-02	105.2	4.05
2002-03	109.5	4.08
2003-04	114.0	4.10
2004-05	118.6	4.03
2005-06	123.4	4.04
2006-07	128.4	4.05
2007-08	377.36	4.07
2008-09	393.70	4.08
2009-10	410.80	4.09
2010-11	428.73	4.1
2011-12	447.66	4.2
2012-13	467.56	4.4

Sources: Central Statistics Office, M/o SPI. **Annual Report** 2011-2012 and 2012-13

Growth of Employment in SSI Sector in India

Employment of manpower in SSI sector has gone up from a mere 71.00 lakhs in 1980-81 to a high level of 312.5 lakhs in 2006-07. Employment rose from 71 lakhs in 1989-90 during the 80s – which is more than 50% over 1980-81 figure. The annual growth rate stagnated between a low of 5.6% in 1980-81 to 5.8% in 1988-89, but a sudden increase to a maximum of 32.4% in 1989-90 was a remarkable achievement during the decade. The employment in the SSI sector increased from 158.3 lakhs in 1990-91 to 229.1 lakhs in 1999-2000 – an increase of less than 50% over 1990-91 figure. However, the annual growth of employment in the SSI sector has fluctuated from year to year during the decade of 90s between 4.9% in 1990-91 and 5.2% in 1999-2000. A sustained upward trend of employment in the SSI sector is observed between 2000-01 and 2006-07 from 240.9 lakhs to 312.5 lakhs during the period. The annual growth rate has been largely stable with a sharp increase in the year 2006-07. 2006-07 onwards growth rate steadily increasing till 2011-2012, and again decline in 2012-2013; the following table provides the details.

Table-2
Growth Pattern of Employment in SSIs in India

Year	Employment (lakh Nos)	Growth Rate
1980-81	71.00	5.6
1981-82	75.00	5.3
1982-83	79.00	6.5
1983-84	84.59	7.0

1984-85	90.00	6.7
1985-86	96.00	5.6
1986-87	101.4	5.5
1987-88	107.00	5.6
1988-89	113.00	5.8
1989-90	119.60	32.4
1990-91	158.3	4.9
1991-92	166.0	5.3
1992-93	174.8	4.3
1993-94	182.38	4.9
1994-95	191.4	3.4
1995-96	197.9	3.6
1996-97	205.09	4.0
1997-98	913.2	3.5
1998-99	220.6	3.6
1999-00	229.1	5.2
2000-01	240.9	4.7
2001-02	252.3	4.5
2002-03	263.7	4.4
2003-04	275.3	4.5
2004-05	287.6	4.2
2005-06	299.9	4.2
2006-07	312.5	5.6
2007-08#	626.34	5.15
2008-09#	659.35	5.27
2009-10#	695.38	5.46
2010-11#	732.17	5.29
2011-12#	1,011.80	7.36
2012-13#	1,061.52	6.31

Sources: Central Statistics Office, M/o SPI. **Annual Report:** 2012-13

Growth Pattern of Production in SSI Sector in India

Production value of the SSIs have gone up steeply during the decade of 80s. The total value of production rose from Rs. 72200 crores (at 1993-94 prices) in 1980-81 to Rs. 189900 crores in 1989-90. Growth rate of production value rose from 8.7% in 1980-81 to 11.8% in 1989-90. There is sudden slowdown in the value of production during the first half of 90s. A good spurt in production value is observed in the second half of the 90s. The annual growth rate has fluctuated during the same period with a declining trend. Production value of SSI sector reached high level during the current decade of the new millennium touching an all-

time high of Rs. 473339 crores in 2006-07 with an annual growth rate of 13.0% over the previous year. The following table provides the details.

Table-3
Growth of Production in SSIs in India (At 1993-94 Prices)

Year	Production (Rs. Crore)	Growth Rate	Production (Rs. Crore)	Growth Rate
1980-81	72200	8.7	28100	30.09
1981-82	78300	8.4	32600	6.01
1982-83	84700	8.2	35000	7.36
1983-84	93500	10.4	41600	18.86
1984-85	104600	11.9	50500	21.39
1985-86	118100	12.9	16200	29.19
1986-87	133600	13.1	72300	18.14
1987-88	150500	12.6	87300	20.75
1988-89	169900	12.9	106400	21.88
1989-90	189900	11.8	132300	24.34
1990-91	84728	-55.4	78802	-40.44
1991-92	87355	3.1	80615	2.30
1992-93	92246	5.6	84413	4.71
1993-94	98796	7.1	98796	17.04
1994-95	108774	10.0	122154	23.64
1995-96	121175	11.4	147712	20.92
1996-97	134892	11.3	167805	13.60
1997-98	146263	8.4	187217	11.57
1998-99	157525	7.7	210454	12.41
1999-00	170379	8.2	233760	11.07
2000-01	184401	8.2	261297	11.78
2001-02	282270*	53.1	282270	8.03
2002-03	306771	8.7	314850	11.5
2004-05	372938	21.6	429796	36.5
2005-06	418884	12.3	497842	15.8

2006-07	473339	13.0	587196	17.9
2007-08	N.A	N.A	790759	11.47
2008-09	N.A	N.A	880805	11.39
2009-10	N.A	N.A	982919	11.59
2010-11	N.A	N.A	095758	11.43

Sources: Central Statistics Office, M/o SPI. Annual Report 2010-11.

Growth of Exports in SSIs in India

There has been a six times increase in the growth of exports from the SSI sector from Rs. 1600 crores in 1980-81 to Rs. 9664 crores in 1990-91. The annual growth rate fluctuated from year to year during the 80s. The maximum annual growth rate of exports of the SSIs was 38.2% in 1989-90 and the lowest growth rate was -4.8% in 1982-83. The decade of 90s indicates high growth of exports from the SSI sector. Exports rose from 13883 crores in 1991-92 to Rs. 54200 crores in 1999-2000 an almost four times increase during the period. Highest annual growth rate of exports of 43.7% of SSIs was achieved in 1991-92 and the lowest annual growth rate of exports of 7.6% was observed in 1996-97 during the decade. The exports earnings from SSIs during the current decade rose from Rs. 69797 crores in 2000-01 to Rs. 150242 crores in 2005-06. The annual growth rate of exports during the decade was highest at 28.8% in 2000-01 and the lowest annual growth rate of exports was 2.1% in 2001-02. In 2004-05 growth of export was Rs 124417 crore with annual growth rate of maximum 27.4 and in coming year it has been declined again upward trend, finally in 2007-08 total export was 202017 crores, at 10.67 growth rate, the following table provides the details.

Table-4
Growth of Exports in SSIs in India

Year	Growth of Exports Rs Crore	Growth Rate
1980-81	1600	33.3
1981-82	2100	31.3
1982-83	2000	-4.8
1983-84	2200	10
1984-85	2500	13.6
1985-86	2800	12
1986-87	3600	28.6
1987-88	4400	22.2
1988-89	5500	25
1989-90	7600	38.2
1990-91	9664	27.2
1991-92	13883	43.7
1992-93	17784	28.1
1993-94	25307	42.3
1994-95	29068	14.9
1995-96	36470	25.5
1996-97	39248	7.6
1997-98	44442	13.2
1998-99	48979	10.2
1999-00	54200	10.7
2000-01	69797	28.8
2001-02	71244	2.1
2002-03	86013	20.7
2003-04	97644	13.5
2004-05	124417	27.4
2005-06	150242	20.6
2006-07	182538	21.50
2007-08	202017	10.67
2008-09	N.A	N.A
2009-10	N.A	N.A
2010-11	N.A	N.A

Sources: Central Statistics Office, M/o SPI. **Annual Report 2010-11.**

Comparative Growth of Small Scale Industries and Industrial Sector (1980-81 to 2010-11)

The growth rate of SSI sector in India has been faster than the growth rate of industrial sector in general during the three decades from 1980-81 to 2006-07 except in two specific years i.e. 1981-82 and 1995-96 when the annual growth rate of industrial sector was higher than the annual growth rate of small scale industries. The annual growth rate of small scale sector during the decade of 80s varied from a minimum of 7.1 percent in 1989-90 to a maximum of 13.4 percent in 1988-89. The annual growth rate of industrial sector during the same decade (80s) varied between a minimum of 3.2 percent in 1982-83 and a maximum of 9.3 percent in 1981-82. The below table provides the details.

Table-5

Comparative Growth of SSIs and the Industries in India (1980-81 to 2006-07)

Year	SSI Sector %	Industrial Sector %
1980-81	8.8	4.0
1981-82	8.5	9.3
1982-83	8.1	3.2
1983-84	10.3	6.7
1984-85	12.3	8.6
1985-86	12.8	8.7
1986-87	13.2	9.2
1987-88	12.7	7.3
1988-89	13.4	8.6
1989-90	7.1	6.0
1990-91	6.6	6.2
1991-92	3.1	0.6
1992-93	5.6	2.3
1993-94	7.1	6.0
1994-95	10.1	9.4
1995-96	11.4	12.1
1996-97	11.32	5.6
1997-98	8.43	6.7
1998-99	7.70	4.1
1999-00	8.16	6.5
2000-01	8.23	5.0
2001-02	6.1	2.7
2002-03	7.7	5.7
2003-04	8.6	6.9

2004-05	9.96	8.4
2005-06	12.32	8.1
2006-07	13.00	8.1

Sources: Central Statistics Office, M/o SPI.

Small scale industries registered minimum annual growth rate of 3.1 percent in 1991-92 and a maximum annual growth rate of 11.32 percent in 1996-97 during the 90s. The industrial sector witnessed a minimum and maximum annual growth of 0.6 percent and 12.1 percent in 1991-92 and 1995-96 respectively. In the current decade SSI sector achieved minimum annual growth rate of 6.1 percent in 2001-02 and a maximum annual growth rate of 13.00 percent in 2006-07. The corresponding figures for the industrial sector were 2.7 percent in 2001-02 and 8.1 percent in 2006-07 respectively.

Conclusion: The small Industries have a talent of dispersal they can be accessible to the remote rural areas of the country and do not lead to regional imbalances and concentration of industries at one place, which is responsible for many economic resources such as entrepreneurship and capital. The planners and the economists in India took has to think and make viable policy to develop this sector because most of these industries existed in the traditional form, which symbolize our heritage and past glory. These still serve as the back bone of our economy, which is mostly rural and need of the hour to ensure sustainable, inclusive skilful growth and development

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