Routes of survival of SSI in India and its futurity - a study of pre and post reform period

Pandey, Adya Prasad and Shivesh

Department of Economics, Banaras Hindu University, Varanasi, India

2 December 2007

Online at https://mpra.ub.uni-muenchen.de/965/
MPRA Paper No. 965, posted 04 Dec 2007 18:23 UTC
ABSTRACT

The small scale sector in India has particularly emerged as a vibrant and dynamic segment of the economy. The strategy of economic development of any country that formulate programmes for removal of poverty by providing large scale employment, education and training, capital formation, effective mobilisation of resources, balanced economic growth, expansion of trade, transport and equitable distribution of national income with effective involvement and participation of all its citizens in the accomplishment of the goal, cannot neglect small scale industrial sector (SSI).

The second generation of economic reforms is underway with vigour. Liberalisation of key sectors is gaining momentum with more relaxed regulatory framework to provide further impetus to growth. Over the past decade, Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the Liberalised era. Being one of the major growth drivers of the economy, the biggest challenge before SSI is not only to survive but also to grow and compete on a sustainable basis. This paper compares the performance of SSI in pre and post liberalised period and focuses on policy changes which have opened new opportunities for this sector. Technology development and strengthening of financial infrastructure is needed to boost SSI and thus growth target can be achieved.
The Small Scale Industries Sector in India has been making significant progress since independence and has contributed to the fulfilment of the socio-economic objective of a growth-with-equity. In July 1991, the Government started to liberalise the Indian economy with a reform programme focused on the investment regime, trade policies, the financial sector, taxation and public enterprises. For enhancing the competitiveness and productivity of small segment of Indian industrial sector, the Government of India announced Policy measures for promoting and strengthening small, tiny and village enterprises (or so called New Small Enterprises Policy) on August 6, 1991. The New Small Enterprises Policy literally changed the very philosophy of dealing with small scale sector. The small scale sector, growing under protective umbrella since independence, has been left open to the invisible hand of market forces. It has increased the sphere of competition, both horizontally and vertically in national as well as in international markets. It has created an environment where the fittest will survive and the inefficient will be weeded out.

The number of units in SSI sector is estimated to be 43.98 lakhs in 2006-07 with a production of 1401939 crores employing 237.17 lakh people and accounting for more than 40 percent of gross value of output in the manufacturing sector. Small Scale Industries in India has been confronted with an increasingly competitive environment due to liberalisation of investment regime, foreign direct investment (FDI) at the international level, the formation of the World Trade
Organization (WTO) in 1995 and domestic economic reforms. Thus the option before SSI sector is either to compete or perish. Thus at this juncture it is necessary to analyze the implications of liberalisation and globalisation on SSI in India.

Studies of Murthy's (2004), S.K. Sahoo (2004), M.H. Bala (1995) emphasizes the importance of SSI in the Indian economy. However these studies need to be seen in the present context and reorientation is required in respect of changed atmosphere and time for SSI.

**DEFINITION OF SMALL-SCALE INDUSTRY**

The definition of small-scale industry at present is related to investment ceiling on the original value of the installed plant and machinery. A small-scale industry is defined as one having original investment in plant and machinery, whether held on ownership terms or on lease/hire purchase basis, not exceeding Rs. 10 million (Planning Commission 2001).

This paper comprises V sections. Section I is introductory, SectionII analyse the growth performance of small industries in India in post-liberalisation period compared with that in preliberalised period. Section III deals with policy implications that have taken place globally and nationally. Section IV highlights the issues, challenges and future prospects of SSI and the last section V is concluding section of the paper.

**PERFORMANCE AND CONTRIBUTION OF SSI**

The overall performance and contribution of SSI to the Indian economy is generally described in terms of its absolute growth in units, employment, production and exports, etc.

In this way the growth performance of small scale industries can be evaluated by comparing its performance in pre and post liberalised period. This will reveal how the sector is coping with challenges and changes in the intensifying competitive environment emerging since 1990-91.

The performance of small scale industries in the pre-liberalised and post liberally period have been indicated in Table No. 1.
NO. OF UNITS

The Table No. 1 reveals that the number of small industrial units increased from 4.16 lakhs in 1973-74 to 19.48 lakhs in 1990-91; 40.09 lakh in 2004-05 and are estimated to increase 43.78 lakhs in 2006-07 at an average annual growth rate of 5.51 percent. Further it also reveals that number of small scale industries increased by 34.74 percent from 13.53 lakhs to 18.23 lakhs during the quinquennium period from 1985-86 to 1989-90. The number of small scale units increased by 31.98 percent from 19.48 lakhs to 25.71 lakhs in the quinquennium period from 1990-91 to 1994-95 and has shown a decelerating trend in the growth rate in actual terms. This decelerating trend continued further and though the number of small scale units increased from 27.24 lakhs in 1995-96 to 32.25 lakhs in 1999-2000 but in terms of actual growth rate in percentage it further decreased to 18.39 percent. The number of small scale units increased from 33.70 lakhs in 2000-2001 to 40.09 lakhs in 2004-05 with slight increase in the growth rate in actual term to 18.96 in the quinquennium period from 2000-2001 to 2004-05.

The data reveals that though in terms of number of units there has been increasing trend, yet actually in terms of percentage, the number of small scale units have shown a decelerating trend in the period from 1990-91 to 1994-95 and 1995-96 to 1999-2000. This may be due to privatisation, globalisation and the resultant competition. This can also be attributed to the negative and unfavourable attitude of the people and entrepreneurs towards small industries. The slight increase in the period from 2000-01 to 2004-05 may be due to the favourable attitude of the government and entrepreneurs.

EMPLOYMENT GENERATION

SSI sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. As per third census of Small Scale Industries, it has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. The Table 1 shows that the employment generated by small industrial units in India increased from 39.70 lakh
persons in 1973-74 to 217.80 lakh persons in 2004-05 and this will further increase to 237.17 lakh persons in 2006-07 at an average annual growth rate of 4.21 percent. The Table 1 also reveals that the number of persons employed in small scale units increased by 24.58 percent, from 96.00 lakh to 119.60 lakh during the quinquennium from 1985-86 to 1989-90. The employment provided in small scale units increased by 16.97 percent from 125.30 lakh persons to 146.56 lakh persons in the quinquennium period from 1990-91 to 1994-95, thereby has shown a decelerating trend in terms of actual growth rate during this period; whereas the employment in small scale units increased by 16.18 percent from 152.6 lakh persons to 177.30 lakh persons in the quinquennium period from 1995-96 to 1990-2000 and thereby has shown further decelerating trend in employment generation. The employment provided in small scale units increased by 17.32 percent from 185.64 lakh persons to 217.80 lakh persons in the quinquennium period from 2000-01 to 2004-05 and thereby has shown ascending trend in employment generation. In 2006-07 the employment is estimated to be 237.17 lakh persons. The data shows that though there is increasing trend in terms of number of persons provided employment, yet in actual terms a decreasing trend can be observed in employment provided in the quinquennium periods from 1990-91 to 1994-95 and from 1995-96 to 1999-2000. This may be due to decrease in the number of units during these periods due to globalisation. However there is increasing trend both in terms of number of persons provided employment per year and in actual terms in the quinquennium periods from 2000-01 to 2004-05. This shows that even in the second phase of globalisation the small scale units have maintained their position by giving more and more employment in India. With in the manufacturing sector itself, small and decentralised sector contributes about four-fifth of manufacturing employment in India. Given the acute unemployment problem in India with backlog of unemployment estimated at around 17 million in 1992. Creation of employment opportunities will depend crucially on the development of small-scale and cottage industries. This would be clear from the fact that while employment in
the factory sector as a whole (large scale, medium scale and small scale) increased by only 2.21 percent per annum over the period 1972 to 1987-88, employment in small scale sector grew at the rate of 5.45 percent per annum (Golder, 1993). In future rural non-farm sector can play a crucial role in the further expansion of employment opportunities in the rural areas.

As per third census of Small Scale Industries, food products industry has ranked first in generating employment providing employment to 0.48 million persons (13.1 percent). The next two industry groups were non-metallic mineral products with employment of 0.45 million persons (12.2 percent) and metal products with 0.37 million persons (10.2 percent). In all other industries the contribution was less than 5 percent.

Thus it can be concluded that on employment front, the performance of small scale is found to be very impressive during the liberalisation process. The values of the targets set for employment during the Tenth Plan have been revised in the light of the third All India Census keeping the 4.4 million additional job proposed for the Tenth Plan Period fixed. The small scale sector are performing exceedingly well and the employment target of Tenth Plan will be achieved and even exceeded.

**PRODUCTION**

The small scale industries sector plays a vital role in the growth of the country. It contribute almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percent points.

It is obvious from Table-1 that the production of SSI increased significantly during 1973-74 and 1989-90. The production increased from Rs. 7200 crores in 1973-74 to Rs. 10,600,87 crores in 2004-05 and is expected to be Rs. 14,01,939 crores in 2006-07 at an average annual growth rate of 15.42 percent. Further it reveals that the production of small scale industries in India increased by 116.11
percent, from Rs. 3,56,213 crores to Rs. 5,78,470 crores during the quinquennium period from 1985-86 to 1989-90. The production of small scale units increased by 89.26 percent from Rs. 155,340 crores to Rs. 293,990 crores during the quinquennium period from 1990-91 to 1994-95 and thereby has shown a decelerating trend growth rate in actual terms. The production in SSIs increased by 62.39 percent from Rs. 3,56,213 crores to Rs. 5,78,470 crores in the quinquennium period from 1995-96 to 1999-2000 and thus has shown further decelerating trend in terms of actual growth rate in percentage. The production in small scale industries increased by 65.89 percent from Rs. 639024 crores to Rs. 1060087 crores in the quinquennium period from 2000-01 to 2004-05 and thus shows increasing trend in terms of actual growth rate in percentage. This could be an indication that globalisation has a negative influence on the rate of growth of production.

**CONTRIBUTION TO EXPORT**

SSI sector plays a major role in India's present export performance. 45.50 percent of the Indian exports is contributed by SSI sector. Direct exports from the SSI sector account for nearly 35 percent of total exports. Besides direct exports, it is estimated that Small Scale Industrial units contribute about 15 percent to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export order from large units or the production of parts and components for use of finished exportable goods.

With the establishment of a large number of modern small-scale industries in the post-independence period, the contribution of small scale sector in export earnings has increased by leaps and bounds. It is surprising to note that the bulk of the exports of the small scale industries (in fact more than 95 percent of the SSI exports) consists of such non-traditional items, readymade garments, sports-goods, finished leather, leather products, woollen-garments and knitwear, plastic products, processed food, chemicals and allied products and a large number of engineering goods. The total exports of the small sector industrial products
increased from Rs. 393 crores during 1973-74 to Rs. 86103 crores in 2002-03 at an average annual growth rate of 22.24 percent. Further it is clear from table no. 1 that export of small the small scale sector in India increased by 175.37 percent from Rs. 2769 crores to Rs. 7625 crores during the quinquennium period from 1985-86 to 1989-90. The export further increased by 200.89 percent from Rs. 9664 crores to Rs. 29068 crores in the quinquennium period from 1990-91 to 1994-95 showing an accelerating trend. The exports further increased by 486.15 percent from Rs. 36470 crores to Rs. 54200 crores in the quinquennium period from 1995-96 to 1999-2000 and thereby has shown a very sharp rise in this period. This increasing trend is still continuing. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO.

POLICY IMPLICATIONS

The Government of India announced the policy towards the small scale on 6th August 1991. The main thrust of the policy is on liberalisation, privatisation and globalisation. Thus the decade of the 1990s was an eventful one in terms of policy changes on global, national and sectoral level which have implications for small industry functioning and performance in India. Globalisation means free movements of factor inputs, both labour and capital, as well as output between countries. The development that have been taking place since the early 1990s are mostly with reference to the free movement of only one of the factor inputs-capital, commonly known as FDI and free movement of goods, particularly from developed to developing countries. The liberalisation of FDI regimes and the strengthening of international standards for the treatment of foreign investors allow foreign firms greater freedom in making international location decisions. This would have led to intensifying decisions. This would have led to intensifying, competition for small firms in the national as well as international markets with the result, the small scale units have to compete with similar units, large-scale units and multi nationals manufacturing similar products. The small-scale units, which have been to hitherto secured and protected struggle to survive.
Globalisation has become a big blow to the units, which have already been struggling to exist. Table 1 shows that there has been decelerating trend in the number of units, employment generated and investment made in small industrial units after globalisation.

World Trade Organisation (WTO) came into being on January 1st, 1995 to Marakkesh for implementing its various provisions agreed upon by all the 148 number nations. The formation of the WTO has only accelerated the process of saling down of tariff and non-tariff restrictions on imports. As a member of WTO, India have substantially done away with its quantitative and non-quantitative restrictions by 1st April, 2001. As result, industry will have to face much stronger international competition. The process of removal of quantitative and non-quantitative restrictions across countries has led to free movement of goods between countries including India. This resulted in increase of world export in dollar terms at an average rate of 5.9 percent during 1990-99 as against 5.9 percent during 1980-90 (MoF 2003). The reduction of restrictions on the movement of goods between countries and the subsequent increase in world exports would have benefited multinational corporations much more than small enterprises.

Economic reforms launched by the Indian Government has resulted in considerable freedom for enterprises domestic as well as foreign, to enter, expand or diversify their investments in Indian Industry. Growth of public sector, a major customer of small enterprises in India, has declined considerably since 1991. This has resulted in reduced growth or even absolute reduction in public sector demand for small industry products. The increased inflow of FDI (from Rs. 3.51 billion in 1991 to Rs. 161.34 billion in 2002) at the ratio of 42 percent per annum have not only created threats of greater competition but also opportunities for outstanding in durable consumer goods and capital goods industries, to small scale sector. The dilution of the protection of items for small scale sector has again increased the competition. Thus, policy changes occurred at the global, national and sectoral
levels have radically changed the environment for the functioning of small industry in India.

ISSUES AND CHALLENGES

Small Scale Industry performance does indicate that the sector faces a tough challenge for its survival and growth in the period of globalisation. Declining trends have been reported in small industries in state of U.P., Kerala, Karnataka. Our field visits to industrial estates in U.P. in connection with our major research projects on small scale industries have confirmed that a considerable number of small scale industrial units have been closed down or have curtailed their operation significantly.

The main issue is that why should liberalisation and globalisation affect Indian small scale industry so much. The reason is that a substantial majority of Indian small industry does not have access to reliable and efficient infrastructure even today, which in turn impedes, small industry competitiveness. The infrastructural constraints confronted by small industry can be broadly classified as economic, technological, marketing and financial. Although government has introduced the Integrated Infrastructural Development (IID) schemes to meet out infrastructural deficiencies but they are not in sufficient number and hence are unable to make much headway. However government has proposed to extend IID scheme to entire country but its implementation is awaited.

Technological obsolescence has been a characteristic of small industry in India which affects quality and productivity adversely. Inferior quality and low productivity is a common phenamena due to lack of technological dynamism in Indian Small Industries (Pandey, A.P., 2005).

Timely availability of adequate finance is another importance issue which determines the survival and growth of small firms. While large firms have alternative sources of finance, small firms are largely dependent on bank credit to meet their financing requirement. Despits of policy support, the credit flow of small industries are not being meet out properly.
Marketing has been identified as a major problem area of small scale sector. Inferior quality of produces are unable to penetrate the market and hence even government support will not pay much for SSI.

**FUTURE PROSPECTS OF SSI**

Over the past decade, Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the liberalised era. Being one of the major growth drivers of the economy, the biggest challenge before the SSIs in the emerging market scenario is not only to survive but to grow on a sustainable basis with competence.

India's Ninth Plan and the Tenth Plan continued with its significant dependence on growth rate of SSI sector for economy's overall growth and for industrial and export growth. The target of doubling India's per capita income by the end of the first decade of the current millennium (i.e. by the year 2010) along with the current thrust of greater participation by private sector in the development process, provide due opportunity as well as responsibility on SSI sector to contribute towards achievement of this target.

Consequently, not only to bear upon both national and international market competitions but also to fulfill the economy's warranted growth rates, the forthcoming years will be of more importance for the SSI sector mainly due to the accelerated pace of deregulation of financial sector. To grow with strength, not only proper flow of financial resource support service is necessary for the SSI sector, but also such financial services should be less burdensome. The undergoing metamorphic changes in the Indian financial system must take care of this. Undoubtedly, financing of infrastructure, plant and machinery, expansion and modernisation, technology upgradation, marketing, R&D are bound to be the major focus areas, which should necessarily be comprehended for apprehension of future prospects of SSI sector. Specially over the more recent years, with
continued beget of economic relaxations to extend stimulus to acquire higher economic growth, policy measures favoured the big industries more than the small ones. However, it will be misleading to state that the SSI sector has not been given the opportunity catch. The question is whether the catch extended by government's policy measures over the recent years were enough and easy for the SSI sector to not only live upto the market competitions but also bear the burden of financial assistances (term loans). As a matter of solicitude, this have not been the case. The translations at the apex level by SIBDI extend enough evidences. The falling shares of disbursements as percentage of sanctions by SIDBI, increasing levels of refinance assistance to Bank and subsequent drastic reduction in favour of SFCs and SIDCs, its greater priority of resource support to 'other institutions', the downward trend of disbursements of project related financing amply extend evidences. Furthermore, our primary survey (UGC major research project completed by author) on the problems of SSI units also highlighted this fact that majority of SSI units still find it much burdensome to bear the interests rate burden of term loans. Hence lies the need for the policy makers to make financial services more mark-down for the SSIs to enable them to bear and sustain the interest burden. This must be the focul-point of liberalisd financial system of Indian economy.

Secondly it may be recalled that the Working Group of the Tenth Plan on SSI sector also felt for the need to create hassle environment of policy framework for making the sector more competitive. For which adequate infrastructure facilities, appropriate linkages between large and small industries and expansion of marketing network including thrust on exports, must be concentrated on. In this respect, we feel that while cheaper financial resource support services provide the base or foundation strength, infrastructure and marketing network are the two pillars on which the SSI sector stands. Circumspectly, a separate policy Implementation cell need to be established to keep vigil on the extent to which
implemented strength is extended by financial resource base and pillars of infrastructure and marketing network.

Thirdly, as SSI sector stands today, to compete both at national and international level, it is of immense necessity that buoyancy in economic of scale along with constant upgradation of technology must be acquired. Undoubtedly, these two issues are the key factors of strength and competence of SSIs in the forthcoming years. In this respect, the network of infrastructural supports and of marketing facilities will effectively constitute adherent factors for their continuity and sustenance with certainty. Alongside, as an ex-factor, knowledge and information being key to any success today, the future dynamics of SSI sector is bestowed upon to Information Dissemination system.

Fourthly, Information Dissemination System is the vital clue of success in this modern generation. This system must be effectively developed in favor of the SSI sector also. A complete network of information at both domestic and international level should be developed to enable the sector to have up dated informations on all the related demand and supply side factors. Establishment of an Information Abode at the central level in condominium with state level will enable SSI units to avail opportunities with convenience and suitability. Conjugation of past and present experiences in this regard may provide basic guide lines in formation of Information Abode.

Fifthly, product-market is another critical issue of SSIs that enclaves many other server dimensions. Marketing is a multidimensional problem of the sector. It importantly circumscribe technology upgradation for price affectivity and cost efficiency, product standardisation, accounting for buoyancy in consumer choric, product interlinkages and market's supply-demand information. Thus, a comprehensive approach must be adopted towards the sector's marketing predicament. In this respect, a central marketing plan may be formulated.
consolidating it on the basis of broad product-group-based strategies to be applicable to each state. Under it, the SSIs will be required to have recognitions under the levels of classified product-group, common product standardisation, common branded product groups, common market information and wide levels of technologies to ensure cost-efficiency and price effectiveness. Such a Central Marketing Plan with its unified broad product-based strategy can form a club of SSIs under its umbrella and be successful in ensuring multi-dimensional issues related to marketing.

Sixthly, it is the high time that the SSI sector should be re-oriented at a modest level to establish some higher degree of simulative inter-linkages between large, medium, small and tiny ones, so as to assertion ancillarisation in the vertical setup of industrial sector. Experiences can be learnt from the development models of Korea, Japan and Singapore in this respect, where basis of such relationship is not by force but by economic advantages, and specialization. Understandably, not the entire industrial sector can be brought under such an umbrella. Yet certainly sector specific higher degree of correlations can be acquired while establishing inter-linkages in industries like engineering, automobiles, electronics and electrical appliances textile and garments, agro-based food products, leather products etc. As suggested earlier, establishment of an Information Abode for dissemination of required information’s in this regard will also act as the basic-information system towards establishment of interlinkages and its future dynamics.

Seventhly, to meet and sustain international competitiveness, there lies the urgent need to hasten the period of transition from the existing level to higher international standards of quality and design. As a positive step in this regard, the scope of the ongoing incentive scheme of ISO 9000 certification was enlarged to include reimbursement of expenses for ISO 14001, Environment Standard Certification w.e.f. Oct 28, 2002. In continuance with the impetus, it is also under the consideration that creation of a category of 'Medium Enterprises' will
streamline the chain of industrial growth by enlarged scope of SSIs to graduate into medium enterprises. Further, this will be in the line with global phenomena of Small & Medium enterprises (SMES) and its corporate strength.

Finally, our discussion reveals that while the SSI units feel for the need of higher investments for technology upgradation, for increasing production capacity, for plant & machinery and for R&D; circumstantially they also feel their limitations in going for term loans in this respect, as the interest burden is often too high for them to bear. Thus, there lies the utmost necessity for the government, the RBI and the financial institutions to collectively reformulate their interest rate policy and bring the interest down to more affordable rate. The urgency and the gravity of the problem also gets further deducible from the anxiety of SSI's most serious problem of meeting working capital requirements. This is almost atterculean task for the SSIs. Alongside, reckoning with their worry of market's price competition, together with the necessity of maintaining the quality and standardisation of their products, can only be achieved through price effectivity and cost efficiency. This in turn fundamentally requires higher scale of production with proper enhancement of technological upgradation and modernisation. Thus, all in all, in the core of their all problems it is the higher investments that is the need of the day, be it for technological advancement or for working capital or for the other. Hence, instrumentally the problem is of monetary policy of the government, as to how best the rate of interest of term loans be softened. It goes beyond doubt that SSIs may fail to grow much further by itself and therefore the government in consultation with RBI must act fast on it before it expects more out of SSI sector to keep up the tempo of industrial and aggregate economic growth of the country.

**CONCLUSION**

Small Scale Industries in India is facing competitive environment since 1991. Its growth has been decelerating trend in terms of units, employment, output and exports except few exceptions. This has resulted in a less impressive growth in its contribution to national income and exports though not in terms of employment
in 1990s. Lack of reliable and stable economic infrastructure, reduced credit inflow and technological obsolescence would have led inferior quality and low productivity. Technology development through either technology transfer or innovations or inter-firm linkages should be emphasised in the light of global competition. Financial infrastructure need to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand. In the context of economic reforms and globalisation the small scale industries must be competitive for their survival and growth. Otherwise they will perish resulting in colossal waste of scarce resources, unemployment and retard the process of industrialisation.

REFERENCES

- DCSSI : "Small Scale Sector, Development Commissioner, Small Scale Industries", Department of SSI and A and RI, Ministry of Industry, Govt. of India, New Delhi.
• Third All India Census of SSI, 2001-02, DC (SSI), Ministry of SSI, Government of India.