Chapter VII
Chapter 7

Summary and Conclusions

7.1. Introduction

Recently, the banking and financial institutions have emerged as important instruments for bringing about socio-economic changes. The financial institutions have equipped themselves with technology, methodology, and manpower to cater to different segments of the national economy. The distinctive feature of each institutional set-up is the focus with which each institution caters to a particular segment of the economy, simultaneously maintaining complementary and functional likes with each other. If the objectives of development are to be achieved, it becomes necessary for every institution to function in coordination with the others. While defining and assessing the role of institutional finance in the growth and development of the SSI sector in the country, it is necessary, at the outset, to have a closer look at the status of the small scale sector.

7.2. The emergence of SSI entrepreneurship

The emergence of entrepreneurship has been considered as one of the essential factors determining the growth of industry of any country. History of the economic development of all countries - either developed or underdeveloped - has evidence to the fact that the entrepreneurs had made a significant contribution in this respect, though the nature and extent of such contribution varies from society to society and country to country, depending upon the industrial climate, material resources, and the responsibility of the political systems. Naturally, entrepreneurs’ contribution will be more where there is a free economy that provides high prestige and freedom to entrepreneurs, than the country which has more controlled economy that provides lesser prestige and freedom.
Entrepreneurship as an economic activity emerges and functions in a sociological and cultural setting, congenial to it. It could be conceived of as an individual’s free choice activity or a social group’s occupation or profession. In the Indian context, entrepreneurs hail either from communities which are traditionally endowed with entrepreneurial qualities or from traditionally non-entrepreneurial groups. Further, entrepreneurship may result from either partial or total transformation in a community. The entrepreneur in this context is defined as one who could start an industry or take up a new enterprise, which is a deviation from his traditional family occupation or profession.

Entrepreneurship may be conceived as a creative activity, the entrepreneur being an innovator who introduces something new into the economy. For instance, he may introduce a new method of production not yet tested in the field of manufacture concerned, a product with which consumers are not familiar, a new source of raw material, or a new market hitherto unexploited or other similar innovations.

‘Entrepreneurship development’ is inevitable for increasing the production and productivity in the primary, secondary and tertiary sectors, harnessing and utilising the material and human resources, solving the problems of unemployment and underemployment, and for effecting equitable distribution of wealth and income, increasing the gross national product, and the real per capita income, improving the quality of life etc.

The scope and potential to achieve these goals lies in the development of the industrial sector. The only alternative to raise the levels of living of the people, is the development of industries. The desired quantum of industrial development can be achieved by creating small, medium and large scale entrepreneurs in the country. This would also result in the development of small scale and tiny sector industries all over the country which would generate more employment opportunities to the educated unemployed, skilled people and other potential entrepreneurs from various segments of the society. Thus, industrial
development can be said to be a major component of economic development and also it envisages entrepreneurial development which leads to the overall development of the economy.

The Government of India initiated many policy decisions to solve its industrial and economic problems like regional imbalance of growth, concentration of economic power in a few hands and haphazard growth of a few industries which have surfaced as a result of the second world war. The decisions taken to solve these problems included undertaking of some important industries under the Government control and augmenting growth of small entrepreneurs and establishment of industrial estates, starting various institutes and corporations to provide initial finance, raw materials and technical knowhow, besides developing entrepreneurship.

The necessity in developing entrepreneurship and multiplying them in an underdeveloped economy has become inevitable for the economy to generate productive human resources, mobilise and retain the sources for subsequent development. The momentum of entrepreneurship development is a vibrant assertion of the fact that individuals can be developed, their outlook can be changed and their ideas can be converted into action through an organised and systematic programme. The academicians, economists, psychologists, sociologists, historians alike and also the state have gradually recognised the importance of entrepreneurship as a major determinant of the economic growth.

Economic development is the outcome of human activity. Man plays three important roles in the process of economic development; as organizer of the community’s resources, as worker and as user of the goods produced. Among these, the organizer of the factors of production is all important. For, unless the skills and resources of the community are organised into efficient production units, man’s labour must remain largely unproductive, and his level of consumption low.
These considerations focus attention on the importance of entrepreneurs in the economic development. Generally, the entrepreneur is a change creating force in economic life and the organizer of productive resources of a society. To some economists the problem of developing entrepreneurs appears as the most acute problem faced by present-day underdeveloped countries, and the shortage of entrepreneurs is possibly the most potent limiting factor on their economic development. Scarcity of entrepreneurs has important political significance, as well. For, unless skillful persons come forward in sufficient numbers in these countries, the State must necessarily play an increasingly active role in the field of economic development.

After Independence, the Government of India on seeing the magnitude of the adverse consequences of such an imbalanced growth of industries, had formulated many measures for creating a favourable environment for developing entrepreneurship. Three important measures were taken by the Government. They are:

(i) to encourage a proper distribution of economic power between public and private sectors;

(ii) to increase the tempo of industrialization by spreading entrepreneurship from the existing industrial centres to other cities, towns and villages; and

(iii) to spread entrepreneurship from a few dominant entrepreneurs to a large number of industrially potential people of varied social strata.

To meet these measures, the Government laid emphasis on the growth of small scale units in cities, small towns and villages. Under the Five Year Plans, particularly from the Third Five Year Plan, the Government started providing more Capital, technical know-how, markets and land at industrially potential places to the efficient and interested
people of varied social strata to occupy the positions of small scale entrepreneurs. To facilitate the growth of new entrepreneurs, Financial Corporations, Small Scale Industries Development Corporations, and Small Industries Service Institutes were established by the Government. As a result, small scale industries emerged quite rapidly in India.

The small scale sector in India presents a wide spectrum consisting of tiny, cottage, and village industries on one end and modern small scale (sun-rise) industries on the other. The SSI sector occupies an important position in the industrial economy of the country because of its advantages—of low investment, high potential for employment generation, and wider dispersal of industries in rural and semi-urban areas. This sector also offers a method of ensuring a more equitable distribution of national income and facilitates effective mobilisation of capital and skill which might otherwise remain unutilised. It further stimulates the growth of industrial entrepreneurship and promoters and diffuses the pattern of ownership and location.

Small scale industrial units play a vital role in the overall economic development of the country, where millions of people are unemployed or underemployed. Most of the entrepreneurs are capable of making only small investments, and there are also constraints in acquiring sophisticated machinery and modern technology. These industries are considered as investment opportunities for promoting rapid industrial growth. Moreover, they provide greater employment opportunities, bridge regional disparities, and ameliorate economic backwardness of the rural and under-developed segment in the country. The growth of the small scale units has been one of the most significant features of the Indian economy during the last few decades. The sector now occupies a position of strength and unique importance in the economy.

The relative importance of the SSI in the national economy can be gauged from the fact that at the end of 1998-99 the total number of SSI units exceeded 31.21 lakhs, the level of
production achieved was of the order of Rs.5,38,357 crores (at current prices), goods worth of Rs.49,481 crores were exported, and the level of employment was 172 lakhs which is next only to agriculture. It contributes around 56 percent of the manufactured products and 35.8 percent of the total exports of the country. During the Ninth Plan period, production at 1997-98 prices is targeted to increase to Rs.9,18,968 crores by the year 2001-2002 with the total credit requirements at Rs.2,44627 crores (working capital requirement: Rs.1,83,794 crores and term loan credit: Rs.60,833 crores.

7.3. Policy support

The government's policy of providing special incentives to small scale units by way of reservation of items exclusively for the manufacture of SSIs includes supply of raw materials through SSIDCs, provision of finance on concessional terms to micro and tiny units, fiscal reliefs in terms of excise duty, assistance in marketing their products, and provision of price preference have, no doubt, helped in the rapid growth of the SSI sector. Recognising the role of the small scale sector in providing employment and increasing production and exports, the government has streamlined procedures for imports and reduced points of control. Import of a number of new items of raw materials, components/machinery and equipments has been brought under OGL. The threshold limit for zero duty export promotion of capital goods(EPCG) scheme has been brought down from Rs.20 crores to Rs.1 crore for chemicals, plastics, and textiles, enabling these sectors to upgrade themselves technologically and become globally competitive. The policy has also enabled duty free import of consumables upto certain limits for gems and jewelry, handicrafts and leather sectors. In the 1998-99 Budget proposals, the limit for working capital was enhanced from Rs.2 crores to Rs.5 crores pm the simplified basis of 20 percent of the projected annual turnover. With a view to increase production, the 1998-99 Budget, as an inducement, had
raised the exemption limit on turnover for levy of excise duty on SSIs and tiny units from Rs.30 lakhs to Rs.50 lakhs and Rs.100 lakhs attracting tariff at a flat of 5 percent.

To accelerate the pace of growth in the small scale sector, the Government of India initiated certain important measures through the 1999-2000 Budget:

- Increasing the limit of composite loan scheme from Rs.2 lakhs to Rs. 5 lakhs to ease the operational difficulties of the small borrowers by providing term loans and working capital through single window.

- Reckoning of lending by banks to non-banking financial companies or other financial intermediaries, as priority sector lending, for the purposes of lending to the tiny sector.

- Devising a new credit insurance scheme for small scale units to provide adequate security to banks and also to improve recovery.

- Enabling flow of funds to micro enterprises, through the coverage of at least 50,000 SHGs at the behest of SIDBI and NABARD.

7.4. Small Scale Industrial units (SSIs)

Small Scale Industries have the advantage of labour-intensiveness, low cost technology, low investment and short gestation period. Therefore, the government accords much importance for the development of SSI units. The Government of India evolved new policy initiatives in 1999-2000, an important one being the Credit Insurance Scheme for providing adequate security to banks and improving flow of investment credit to SSI units, particularly, export-oriented and tiny units. The working capital limit for SSI units shall henceforth be determined by the banks on the basis of 20 per cent of the annual turnover or up to Rs.5.0 crores whichever is minimum.

From the table 7.1, it is learnt that, as of 1999-2000, there were 3.55 lakhs of registered
SSI units in the State compared to 3.25 lakhs in the preceding year. This quantum of investment has increased by 19.32 per cent from Rs. 7139.1 crores in 1997-98 to Rs.8518.53 crores in 1999-2000. The value of output also rose from Rs.18172 crores to Rs.21296.34 crores for the corresponding period. These SSI units provided employment to 31.94 lakhs persons during 1999-2000, which was higher by 9.31 per cent over the level of 29.22 lakh in 1998-99. It may be noted that Tamil Nadu housed about 11.01 per cent of the total SSI units in the country and accounted for 17.9 per cent of SSI employment. However, Tamil Nadu’s share in total value of output was only 3.7 per cent.

**Table 7.1**

**Performance of Small Scale Units**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Tamil Nadu</th>
<th></th>
<th></th>
<th>All India</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Registered SSI Units</td>
<td>3.88</td>
<td>4.20</td>
<td>4.49</td>
<td>26.14</td>
<td>34.42</td>
<td>35.72</td>
</tr>
<tr>
<td>(Lakhs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in Fixed Capital</td>
<td>11567.22</td>
<td>12166.19</td>
<td>12569.34</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>(Rs. crores)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of Output</td>
<td>78261.6</td>
<td>83904.80</td>
<td>89781.00</td>
<td>639024</td>
<td>690316</td>
<td>742021</td>
</tr>
<tr>
<td>(Rs. crores)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>29.02</td>
<td>31.04</td>
<td>31.42</td>
<td>185.64</td>
<td>192.23</td>
<td>199.65</td>
</tr>
<tr>
<td>(Lakh Nos.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (1) Department of Industries and Commerce, Chennai-5,
(2) Indian Economic Survey 2000-2001

The major problems faced by these SSI units are: inadequate working capital at affordable rate of interest, insistent of collateral security by the lending banks and the emergence of stiff competition from foreign goods in the wake of economic reforms. It is
imperative for the SSI Units to identify the gaps in the market and evolve suitable marketing strategy with a purpose of getting a full book order for the products.

7.5. Small Scale Industries

Small scale industries play a vital role in the development of the economy through its dispersal nature, low capital requirement and high employment quotient. As per the guidelines of Government of India, an industry with an investment not exceeding Rs.100 lakhs on plant and machinery is categorised as small scale industrial unit or ancillary units with effect from 24 December, 1999 and those with the investment on plant and machinery upto Rs.25 lakhs is classified as tiny unit. Further, Government of India has reserved production of 674 items exclusively by SSI units. Government Departments have been directed to procure from the SSI units for their needs on priority basis. During 2002-03, an addition of 28381 number of units had registered as permanent SSI units in the State. The total number of SSI units had increased to 4.49 lakhs in 2002-03 from 4.20 lakhs in 2001-02 recorded a growth of 7.0 per cent. The investment made in this sector had increased from Rs. 12166.19 crores in 2001-02 to Rs. 12569.34 crores in 2002-03 recorded a growth of 3.31 per cent. Consequently the output from SSI units had increased to the quantum of Rs.89781.00 crores in 2002-03 registered a growth of 7.00 per cent comparing the previous year. The employment provided by this sector had increased from 31.04 lakhs in 2001-02 to 31.42 lakhs in 2002-03 registered a growth of 1.22 per cent only. Between 1993-94 to 2002-03, the SSI units in the State had recorded a time growth rate of 10.69 per cent in terms of number of registered units, 13.10 per cent in the investment deployed, 16.34 per cent in
output and 9.38 per cent in employment. At the national level, the State had accounted for 12.6 per cent of registered SSI units, 12.1 per cent of output and 15.7 per cent of employment during 2002-03.

**District Industries Centres**

District Industries Centres are established to act as nodal agency for implementing the single window scheme for the development of SSI units. DICs are catalytic in providing package of services for existing and new industries with special focus on revitalising the rural economy. It provides escort services to the entrepreneurs (i.e.,) identification of industry and preparation of project profile, financial assistance from financial institutions. Under the Single Window Scheme, out of 860 applications received by the Single Window Clearance Committee, 758 (88%) applications were cleared during 2002-03.

Apart from issuing permanent registration certificate to 28381 number of SSI units during 2002-03, the DICs had also registered 7538 cottage industries and 4793 handicrafts units and those provided employment to 13360 and 8369 persons respectively. Under the monetary incentive schemes, out of Rs.2035 lakhs allotted, during 2002-03 for this purpose, Rs.1000 lakhs was distributed as capital subsidy to 267 units and LTPT subsidy to 2374 units with Rs.1000 lakhs and 97 units were benefited by Rs.35 lakhs as generator subsidy. Under the Centrally-sponsored PMRY scheme for educated unemployed youth, a total number of 38125 applications were recommended to banks and 19637 applications during the review year were sanctioned to the tune of Rs.85 crores.

**Khadi and Village Industries**

Khadi and Village Industries had been established to provide large scale employment to the rural people. Most of the units working with simple technology are: environment-friendly and manually-operated. Various efforts are taken by the Government to safeguard these rural industries to promote the rural economy.
The khadi production units had declined to 501 units during 2002-03 from 527 in 2001-02 comprising of 79 khadi production centres, 33 silk production centres, 172 khadi kraft units and 204 rural textile centres and 13 were the Co-operative type of production units. Though, there was an marked improvement in the production of khadi products, the khadi sales were affected during 2002-03. Khadi yarn production had increased from 4.12 lakh hanks in 2001-02 to 9.94 lakh hanks in 2002-03. For the corresponding period, khadi cloth production had risen from 2.44 lakh metres to 3.26 lakh metres, khadi silk production from 1.85 lakh metres to 2.12 lakh metres and khadi polyester from 1.95 lakh metres to 2.14 lakh metres. However, the khadi sales declined by 29.42 per cent from Rs.22.40 crores in 2001-02 to Rs.15.81 crores in 2002-03.

Village Industry

The village industry provides off-farm employment opportunities. There were 1860 Industrial Cooperative Units, 94 departmental units and 90329 units were owned by individuals artisans engaged in the production of village industries during 2002-03. The overall performance of village industries during the review year was not satisfactory. All the parameters taken for analysis showed a decline. The total value of production had decreased from Rs.411.46 crores in 2001-02 to Rs.363.52 crores in 2002-03 and sales declined from Rs.451.11 crores to Rs.401.91 crores. The employment provided by these units had also drastically went down by 53.21 per cent from 21.20 lakhs to 9.92 lakhs.

Industrial Sickness

According to RBI, Industrial sickness is defined as the erosion of gross output over period of three successive accounting years. The existence of industrial sickness adverse affects the growth of economy.

As per the latest data on industrial sickness made available by the Reserve Bank of India showed an increasing sickness both in SSI and non-SSI units in the State during 2001-02 compared to the previous year. As at the end of March 2002, 11513 SSI units and 334
non-SSI units came under industrial sickness in the State with a bank credit outstanding of Rs.675.11 crores and 1783.31 crores respectively. It is noted that within a short span of one year period, 1554 SSI units and 17 non-SSI units become sick in the State. The share of industrial sickness of the State at the national level was 6.49 per cent for the SSI units and 10.24 per cent in the case of non-SSI units. On the contrary, at the national level, the SSI sick units’ had remarkably decreased to 177336 units as at the end of March 2002 from 249630 SSI units as compared to March 2000. In the same period the non-SSI sick units considerably came down to 3261 from 3317 units.

In terms of State-wise break up, Maharashtra continued to top the non-SSI sick industrial list followed by Andhra Pradesh, Gujarat, West Bengal and Tamil Nadu in that order. Regarding SSI sick units West Bengal leads the list of 53957 units on its part and Tamil Nadu is placed in second position.

Table 7.2 - Incidence of Industrial Sickness

<table>
<thead>
<tr>
<th>Type</th>
<th>Tamil Nadu</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Numbers</td>
<td>Bank Credit Outstanding (Rs. crores)</td>
</tr>
<tr>
<td>I. SSI - Sick Units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>9959(3.99)</td>
<td>589.80(13.09)</td>
</tr>
<tr>
<td>2001</td>
<td>11602(3.81)</td>
<td>612.20(13.28)</td>
</tr>
<tr>
<td>2002</td>
<td>11513(6.49)</td>
<td>675.11(14.01)</td>
</tr>
<tr>
<td>II. Non-SSI Sick/Weak Units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>317(9.56)</td>
<td>1857.28(8.73)</td>
</tr>
<tr>
<td>2001</td>
<td>285(9.01)</td>
<td>1668.49(8.75)</td>
</tr>
<tr>
<td>2002</td>
<td>334(10.24)</td>
<td>1783.31(8.39)</td>
</tr>
</tbody>
</table>

Note: 1. Tamil Nadu: Figures in brackets indicate the State’s share at the national level.

2. All-India: Figures in brackets indicate the percentage change over the previous year.

Source: Reserve Bank of India, Mumbai.
Lack of demand and shortage of working capital are the principal reasons for sickness/incipient sickness for SSI units coupled with non-availability of raw materials, power shortages and to problems of labour, marketing, equipment and management systems. These problems interact upon one another mutually to reduce the gross output continuously, imbalancing their revenue and expenditure and finally fall in the trap of shut down. The third all India Census of SSI units conducted by Government of India shows that of the total number of 3.09 lakh permanently registered SSI units in Tamil Nadu, only 1.68 lakh are working, the remaining are closed as of 2001-02.

Of the total closed units in the country, nearly 16 per cent are traced to Tamil Nadu. This requires to be addressed.

**Small Scale Industrial Units in the Post Globalisation Era**

Small industry has been one of the major planks of India’s economic development strategy since Independence. Today, small industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. At the end of March 2002, there were 3.4 million small industry units, accounting for more than 40 per cent of gross value of output in the manufacturing sector, about 35 per cent of total exports, and providing employment to over 19.2 million people, which is second only to agriculture (Planning Commission 2002). This contribution is despite the sector being exposed to intensifying competition during the decade since 191. **Small industry in India has been confronted with an increasingly competitive environment due to:**

1. liberalisation of the investment regime in the 1990s, favouring foreign direct investment (FEI) at the international level, particularly in socialistic and developing countries;
2. the formation of the World Trade Organisation (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and

3. domestic economic reforms (Bala Subrahmanya 2002b). The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to ‘compete or perish’.

- Why should global and national policy developments affect small industry in India, and how? What are its implications?

- How far has small industry been able to cope with the competitive environment? What was its growth performance in the past decade? How different was it compared with the earlier decade?

- What are the future prospects of small industry in India in the era of globalisation? What steps need to be taken to strengthen small industry to ensure its sustained contribution to Indian economy?

The decade of the 1990s was an eventful one in terms of policy changes, nationally as well as internationally. Since the beginning of the 1990s, policy changes have been taking place at three different levels - global, national and sectoral - which have implications for small industry functioning and performance in India. The first and the foremost development is the ‘globalisation’ process at the international level. Globalisation would mean free movement of factor inputs (both labour and capital) as well as output between countries. According to Stiglitz (2002), globalisation is the closer integration of the countries and people of the world, which also been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge, and (to a lesser extent) people across borders. However, the developments 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 movements 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 (UNCTAD 2001). Around 58 countries have introduced changes in their investment regimes annually during 1991-2000. In 2000 alone, 69 countries made a total of 150 regulatory changes, of which, 147 (98 per cent) were more favourable to foreign investors (ibid). As a result, global FDI inflow increased to US $1.271 billion in 2000 from US $209 billion in 1990. The rate of growth of FDI inflow increased to about 21 per cent in the early 1990s from 17.4 per cent in the 1980s and further increased to about 41 percent in the late 1990s. The increased inflow of FDI has led to its greater share in gross capital formation in all industries together as well as in manufacturing industries (Table 7.4). The increase was more significant in developing countries. This would have led to intensifying competition for small firms in the national as well as international markets.

**Table 7.3 - FDI in Capital Formation**

<table>
<thead>
<tr>
<th>Region</th>
<th>FDI as per cent of Gross Capital Formation (All Industries)</th>
<th>FDI as percent of Capital Formation in Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>2.3</td>
<td>9.0</td>
</tr>
<tr>
<td>1990</td>
<td>4.7</td>
<td>14.0</td>
</tr>
<tr>
<td>1998</td>
<td>11.1</td>
<td>21.6</td>
</tr>
<tr>
<td>Developing countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>1.2</td>
<td>11.7</td>
</tr>
<tr>
<td>1990</td>
<td>4.0</td>
<td>22.3</td>
</tr>
<tr>
<td>1998</td>
<td>11.5</td>
<td>36.7</td>
</tr>
</tbody>
</table>

Source: UNCTAD (2000)
Table 7.4 - Growth of Public Sector Enterprises in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (Rs. Million)</th>
<th>Employment (Number in '000)</th>
<th>Production (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>64,700</td>
<td>13,650</td>
<td>32,190</td>
</tr>
<tr>
<td>1990-91</td>
<td>7,77,900</td>
<td>23,230</td>
<td>7,55,680</td>
</tr>
<tr>
<td>1997-98</td>
<td>14,39,550</td>
<td>23,880</td>
<td>17,95,870</td>
</tr>
<tr>
<td>Period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973-74 to 1990-91</td>
<td>15.75</td>
<td>3.17</td>
<td>20.39</td>
</tr>
<tr>
<td>1990-91 to 1997-98</td>
<td>9.19</td>
<td>0.39</td>
<td>13.16</td>
</tr>
</tbody>
</table>

Source: EPW Research Foundation (2002)

The formation of the WTO in 1995 has only accelerated the process of scaling down of tariff and non-tariff restrictions on imports. India, as a member of the WTO, had substantially done away with its quantitative and non-quantitative restrictions by April 1, 2001 (MoF 2002). As a result, industry will have to face much stronger international competition (Planning Commission 2002). The process of removal of quantitative and non-quantitative restrictions across countries has led to free movement of goods between countries including India. As a result, world exports grew in dollar terms at an average rate of 5.9 percent during 1990-99 as against 5.2 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.

This has to be viewed along with the process of economic reforms launched by the Indian government at the national level. This has resulted in considerable freedom for enterprises, domestic as well as foreign, to enter, expand or diversify their investments in Indian industry. India’s economic reforms have seen two major outcomes, among others: firstly, the growth of the public sector has declined considerably since 1991 than in the earlier period in terms of not only investment and employment but also production (Table 7.5). The public sector
has been a major customer of small enterprises in India. The curtained growth of PSUs would have resulted in reduced growth or even absolute reduction in public sector demand for small industry products in the 1990s. The relative role of the public sector as a distinct entity will decline further in the course of the Tenth Plan (Planning Commission 2002). This will most probably further bring down public sector demand for small industry products.

Secondly, there has been a rapid increase in FDI inflow into diverse sectors of Indian industry. FDI inflow increased from Rs. 3.51 billion in 191 to Rs. 161.34 billion in 2002 (which excludes ADRs/GDRs/FCCDs, stock swapping, etc.) at the rate of about 42 per cent per annum (SIA 2003). This would have created not only threats through greater competition, particularly in non-durable consumer goods industries but also opportunities for outsourcing in durable consumer goods and capital goods industries, to small enterprises.

The introduction of an exclusive policy for small industry, which laid emphasis on imparting more vitality and growth impetus to the sector, is the sectoral dimension of the major policy changes relevant to small industry (Ministry of Industry 1991). The policy marked: (1) the beginning of the end of protective measures for small industry; and (2) promotion of competitiveness by addressing the basic concerns of the sector, namely, technology, finance and marketing (Bala Subrahmanya 1998). Subsequently, the number of items reserved exclusively for small industry manufacturing has been gradually brought down from 842 in 1991 to 675 in 203. Of course, the contribution of this policy to small industry growth was nothing much to talk about (Bala Subrahmanya 1995). Concessional element in lending rate for small industry has been largely withdrawn during the 1990s (RBI 2003). The number of products reserved exclusively for purchase from small industry by the directorate general of supplies and disposals for the public sector has been changed to 358 items from 409 after declining items having common nomenclature and making the entries
more generic, as well as addition of new items (DCSSI 1999). The price preference scheme (upto 15 percent over the lowest quotation of the large-scale units) has remained the same. On the whole, the protection emphasis of India’s small industry policy has undergone a dilution since 1991.

Thus, policy changes that have occurred at the global, national and sectoral levels have radically changed the environment for the functioning of small industry in India. The growth of small industry in the country has to be analysed against this backdrop.

The overall performance and contribution of small industry to the Indian economy is generally described in terms of its absolute growth in units, employment, production and exports. Equally important is its relative contribution, which can be analysed in terms of small industry share in national income, total exports and total organised sector employment. Thus, the growth performance of small industry can be evaluated in two ways:

1. **To compare the growth rates of units, employment, output and exports of small industry in the 1990s with that of the 1980s.**

2. **To ascertain the change in small industry’s relative contribution to GDP, exports and organised sector employment in the 1990s with that of the 1980s.**

This will reveal how the sector is coping with challenges and changes in the intensifying competitive environment emerging since 1990-91. The growth of small industry in terms of units, employment, production and exports is estimated based on the figures given in Economic Surveys of the ministry of finance. The share of small industry in national income is arrived at as follows: The gross value added (GVA) of units having investment more than that of the small industry investment limit is deducted from the manufacturing sector’s contribution to gross domestic product (GDP) and the remainder is the contributino of
small industry to GDP. It represents the contribution of the entire small industry sector and not just the modern small industry sector. This value is calculated as a percentage of the total GDP. The Annual Survey of Industries (EPW Research Foundation 2002) and Handbook of Statistics on Indian Economy (RBI 2001) are used for the purpose. The share of small industry exports in total exports is calculated in rupee terms based on the figures available in the Economic Surveys. Similarly, the quantum of employment of small industry is calculated as a percentage of total organised sector employment based on Economic Survey figures. Strictly speaking, small industry employment comprises employment generated by both the organised and unorganised sectors and therefore, is not directly comparable to total organised sector employment. However, the purpose here is to show the importance of small industry in terms of employment generation compared with the employment of the entire organised sector.

The growth rates of small industry in terms of units, employment, output and exports for the 1980s and 1990s are presented in Table 7.6. It is clear that the growth of small industry in the transitional period of 1990s has come down not only in terms of units and employment but also output. This could be an indication that increasing competition in the globalisation period does affect the growth of Indian small industry adversely. However, the growth rate of exports has actually increased marginally. To probe the growth pattern further, growth rates are estimated for five-year periods for both the 1980s and 1990s. They also broadly correspond to India’s five-year plans, namely, the Sixth, Seventh, Eights and Ninth Five-Year Plans. The scenario does not differ much, except for exports (Table 7.6). The growth rates of units and employment have steadily come down. But the growth rates of output and more importantly, exports have fluctuated. In fact, the growth rate of output
increased in late 1980s compared with the early 1980s but then declined in the early 1990s and further in the late 1990s. Whereas the growth rate of exports increased steadily till the early 1990s but then declined considerably.

**Impact of MNC’s on SSI sector**

The process of reforms involves certain social costs. Reduced government spending may have an adverse impact on implementation of some programme which are crucial for promoting welfare of the poor. Certain terminally sick industrial units may have to be shut down. This may cause a temporary loss of jobs for labour employed in these units. However, the Government has set up a National Renewal Fund to finance schemes for compensation, retraining and redeployment of workers affected by economic restructuring. This fund is being financed through sale of public sector equity along with contributions made by foreign donors. The public distribution system (PDS) has been strengthened and expanded in 1700 backward blocks specially identified for the purpose. The 1993-94 budget has stepped up expenditure on the social sectors including rural development, health and education.

**The New Economic Reforms in India has thus led to the following conclusions:**

1. The liberalisation programmes have promoted the attraction of more capital intensive industries, resulted into decentralised production and relatively high direct transaction cost of labour in organized sectors. Therefore the major share of new employment is likely to take place in the informal sector.

2. The retrenchment of workforce under exit policy is inevitable under the banner of voluntary retirement in public sector units and closing down of sick units in private sector will result in to higher unemployment and high degree of incidence of poverty and therefore, is an anti-welfare policy from social point of view.
3. The liberalised policy has resulted into flexibilisation of labour, i.e., the rise in employment of temporary, casual and contract labourers due to the labour saving technology. The casualisation of labour saving technology. The casualisation of labour will lead to deterioration in working conditions, economic status as well as the health conditions of these labourers.

4. The decentralised production strategy encourages the capitalistic mode of production and in such a mode of production of the labourer will not be benefitted from optimum production. As a consequence, the variations in income distribution will get widened and thus, will encourage the concentration of economic power.

The worst affected sector in employment generation under the New Economic Reforms is the agricultural sector, where the GDP growth rate for four decades recorded only 2.45 per cent and is very low and at the same time the dependency rate of the same is more than 70 per cent. Under the New Economic Reforms, more emphasis on diversification of agriculture is given.

**Impact of Multinational Companies**

One of the major sources of technology development in developing countries is the Multinational Corporations. The engines that are driving the globalisation process are the Multinational Corporations/Multinational Companies (MNCs).

The MNC is the most advanced form of the organisation of capital today. Any individual unit/organisation of capital has the power within it to grow, expand and become multinational capital. The history of MNCs also bears out the fact that an MNC can origin in any nation.

The Multinational Corporation, by the rapid improvement of all instruments of
production, by the immensely facilitated means of communications draws on even the most barbarian, nations into civilization. It compels all nations, on pains of extinction, to adopt the bourgeois mode of production, it compels them to introduce what it calls civilization into their midst.

The Multinational Corporations have subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared to the rural and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has barbarian and semi-barbarian countries dependent on the civilized ones, nations of peasants on nations of bourgeois, the est of the west. The Multinational Corporations keep more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralized means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralization. Independent of but loosely connected provinces, with separate interests, loss, systems of taxation, and Governments became lumped together in one nation, with one Government, one code of laws, one national class-interest one frontier and one customs tariff.

With regard to MNCs in agriculture, the benefits of globalisation go to the seeds and chemical corporations through expanding markets whereas the cost and risks are exclusively born by the small farmers and landless peasants.

In May 1998, Monsanto a big multinational corporation of US seed industry entered into the joint venture with one of India's largest seed company Mahyco and formed Mahyco-Monsanto Biotech Limited. The clearance of Monsanto's trials with toxic plants without democratic consent of the concerned Governments, from state to local level and democratic participation of the public in bio-safety decisions reveals the loopholes and
inadequacies in the present bio-safety regulations both from the democratic perspective and ecological perspective.

In general the MNCs foreign investments have had and can have adverse economic, social, environmental and cultural effects even when these companies are subject to Government regulations. This would, most likely, result in a great expansion in the number of negative effectives:

1. The losses and closure of many local firms;
2. Increased local unemployment;
3. Greater profit outflow leading to BOP difficulties;
4. The inability of domestic sector to build its capacity;
5. Loss of economic sovereignty; and
6. The substantial buying of land and property by foreigners.

Impact of Globalisation

"If your Economy is not strong enough, Your Leadership will not be accepted. Is A Fact."

In recent years, the term Globalisation has been employed to explain the changes taking place in the national and international economy. More recently, globalisation has become a focus of writers in the world. It is a term with an ambiguous context which imparts an alluring intersection of economics and history. The term globalisation lacks clarity and is used in such an all encompassing manner for understanding the dynamics of economic and political change.
The term globalisation is used in many ways, for example, to describe a set of phenomena (the transfers of money around the world, the development of information technology, international production, increased tourism and the decline of the nation state). It is also used as a discourse one which constructs an acceptance of globalisation as being inevitable, irresistible and irreversible. Used in this way, globalisation becomes a sort of natural process outside the control of human agency.

Hall (1996) identifies globalisation as the cause of changes affecting adult education provision around the world. The narrowing scope of much adult education activity to that of training, withdrawal of state funding; an increase in crisis oriented adult education; centralisation of adult education policy making, and an increase in the number of people who cannot read or write these are laid at the feet globalisation.

The impact of workers, farmers and the poor in a number of Asian Countries has already commenced and will be severe as the IMF plans are implemented.

The financial crisis will also, though to a much lesser extent, impact on Australian education.

Thus, the term globalisation is a motivation force for the nations to develop themselves on such a faster pace that creates more gainful environment in the world scenario for each economy. For developing and transition economies, especially for India, globally-oriented regimes provide access to new markets and new technologies.

To conclude, an evaluation of the origin and growth of SSI sector has been undertaken in this chapter to examine their contribution in different areas including production, employment, exports etc. during pre-Independence and Post-Independence period. Besides, an attempt was also made to examine the impact of MNC's entry and also the
performance of SSI sector in the liberalised economy. The status of SSI sector in the post
globalisation era has also been studied to further our investigation.

7.6. Importance of the study

There is a widespread disguised unemployment in India in agriculture sector and to shift
this to other sectors where they can be productively employed assumes greater importance.
The proposal of transforming the surplus labour from agriculture to allied activities finds
its relevance here. Industrial development becomes incomplete without the development
of small scale industrial units, since this sector provides opportunity to utilize that abundant
manpower and unexploited resources.

In order to tackle unemployment problem, various measures have been taken by the
Government, as this problem has been one of the major problems of our country.
Realising the importance of small scale industrial units in creating employment
opportunities to solve the unemployment problems, all these industrial units are
encouraged through various ways. Necessary supports are given to set up these
industrial units in Tamil Nadu.

While that has been the prime concern of the policies of the Government, but all these
small scale units are suffering from finance which is one of the major problems of these
units today. In extending credit facilities to these small scale units, both banks and financial
institutions are having their procedures, policies and expected to fulfil the requirements of
these units. Either not knowing of all these procedures or unable to fulfil the formalities,
the existing as well as prospective small scale units are not able to get financial assistance
from banks and financial institution. It ultimately leads to affect the growth of industries.
7.7. Objectives

The following are the main objectives of the study.

(i) To study the growth of SSI units in India and Tamil Nadu in particular;

(ii) To examine the socio-economic background of the Small scale entrepreneurs and to compare the personal factors with their performance;

(iii) To study and measure the entrepreneurial performance and profitability of small scale units in the post-globalisation era;

(iv) To examine the problems of small scale units with special reference to competition; and

(v) To suggest measures for the development of SSI entrepreneurship, in the post-globalisation era.

7.8. Hypotheses

(i) Entrepreneurial performance is positively related to entrepreneurial qualities such as risk taking ability, innovativeness, organising skills and leadership qualities.

(ii) Entrepreneurial performance is positively related to expansion and development of the unit.

(iii) There is no association between the educational levels of the sample entrepreneurs and the amount of capital, brought in by them.

(iv) There is no association between the occupational background and the amount of capital invested by them.
(v) Entrepreneurial performance is positively related to Institutional support system.

(vi) The personal variables of the entrepreneurs such as age, education, experience, location, status and nature of operation will not have any influence on their level of competency.

(vii) The entry of Multinational Corporations has adversely affected the small scale units.

7.9. Major findings of the study

It is found from the review of literature (Chapter 2), that there were so many studies on entrepreneurship in the past. Many authors like, John Haris Peter Kilpy, Hoselitz, Gustav Papanek, Gama J. Barner, K.L. Sharma, R.A. Sharma, B.S. Bhatia, M.V. Dash Pandu, R.N. Hadimani, S.S. Khanka have investigated small scale entrepreneurs in different angles. From these studies, it was found that there were many motivational factors that have influence the SSI entrepreneurs to start units. Accordingly, those factors have been used in the present study and found that the following factors have emerged as major motive factors. a) Self Employment, b) Fulfilling the ambitions, not happy with the existing job (or) employment, continuing family business, earning more money, gaining social prestige, availing the government assistance support from family members.

It is found from the Chapter 3 that entrepreneurship, as an economic activity, emerges and functions in a sociological and cultural settings, congenial to it. Entrepreneurship development increases with its production, and productivity in the primary, secondary and tertiary sectors, utilises, the material and human resources, solves the problem of unemployment, effects equitable disinquation, wealth and income, increases GNP, per capati income and improves the quality of life etc.

It is found from analysis and interpretation of data of socio economic and motivation
factor of SSI entrepreneurs (Chapter 4), that (1) self employment, (2) not happy with the existing employment, (3) continuing family business, were ranked as 1, 2, 3 the major factors, among other factors. It was also found from the analysis that the following major factors were responsible for the success of the entrepreneurs, (1) Risk taking ability, (2) Leadership quality, (3) Organising the work and (4) Government assistance.

It is found from the Chapter 5, where the entrepreneurs perform and profitability of SSI units in the Post-Globalisation era, has been examining, certain hypothesis were framed to examine the entrepreneurial performance. After the analysis and interpretation, the following points emerged as the main findings.

1. **Entrepreneurial performance is significantly related to entrepreneurial qualities** such as risk-taking ability, innovation, organising skills and leadership qualities.

2. **Entrepreneurial performance is significantly related to expansion and development** of the units.

3. **There is no significant relationship between the educational levels of the entrepreneurs and the amount of capital** brought in by them.

4. **There is no significant relationship between the occupational background and the amount of capital** invested by them.

5. **The institutional support system is significantly related to the entrepreneurial performance.**

6. **Among the personal factors, age, education, experience, marital status and nature of operation have influenced** their level of competency.

7. **The MNC’s entry has not affected the profitability** of SSI units.
8. The post globalisation era has not affected the profitability of the SSI units.

9. The private limited company form of organisation, followed by the partnership, sole-proprietorship have been successful in SSI sector.

It is found from the Chapter 6 where the problems of the SSI entrepreneurs were examined, the following major problems emerged, during the current year.

1. Preparation of project report.

2. Procuring various clearances.

3. Procuring initial capital.

4. Procuring industrial sheds.

5. Lack of training facilities.


9. Lack of adequate working capital facility.

10. Procuring power connections.

7.10. Suggestions of the Study

Based on the study, the following suggestions are made for the better institutional assistance
1. In spite of the repeated representation by the small scale sector to various committees, the credit flow is still not adequate. This aspect must be given special priority to avoid most of the small industries turning sick.

2. Like TJJC, Banks should also be empowered / authorised to receive and disburse subsidies to the eligible borrowers.

3. TIIC charging 5% penal interest which is extraordinary and abnormal, for the growth of SSI sector only TIIC is functioning. Some of the industries become sick because of the interest burden.

4. TIIC/SIDB1 are assisting to bring in the entire promoter's contribution before the disbursement of term loan/forking capital. But the borrowers should be allowed to bring promoter's contribution in proportionate to the disbursement of the loan.

5. Financial institutions decision should be within the prescribed time limit when applied for loan. Even a negative reply to be communicated.

6. Since majority of SSI are only doing job works, RB1 must ensure discounting of labour bills.

7. Printing of Various Schemes: The financial Institutions and the banks should print various assistance/scheme available with them so that an entrepreneur can choose a right scheme for his venture with a proper counselling service.

8. Flexibility as a need based policy should be encouraged by financial institution to ensure normalcy in running of SSI.

9. Working capital has to be given to the tiny sector up to Rs. 2 lakhs without collateral security.

10. To avoid sickness in small scale sector the financial institution and the Bank should
sanction demand loans for the rehabilitation of the existing units with the assessment of qualified technical cell.

11. Women entrepreneur should be given concessions to start any industry.

12. To meet the impact of the liberalised policy the unit should be allowed additional funds without margin for modernisation and technology development.

13. Venture capital is a dream to our country. An entrepreneur who is having an innovative product, the financial institution should take the responsibility in clearing the project for venture capital and 100% finance should be sanctioned.

14. Separate cell for SSI sector to be formed to monitor the disbursement of the loan.

15. Export is our national priority. It is covered under priority lending. First generation exporter is finding difficult to get the pre shipment/post shipment export credit, the bankers are insisting 100% to 150% collateral. The credit should be given with 25% collateral.

16. Factoring without recourse is the immediate help for SSI sector in regard to delayed payment.

17. Restructuring interest rates for SSI sector.

18. Setting up of SSI Mutual Fund.

19. Special branches of financial institutions for small scale industries in the state.

20. Change of attitude is required on the part of the officials of banks/financial institutions and the entrepreneurs. The Bank and the institution officials should visit the industries
and enquire about the practical problems and try to solve it. They can provide professional guidance also to the entrepreneurs. They should act as consultants in planning their financial need.

21. The entrepreneurs have to co-operate with the financial institutions in showing their qualities such as risk-taking, competence, integrity, honesty, creativity, organising ability etc. This will prevent the misunderstanding between the bankers and the entrepreneurs.

22. Due to MNCs entry and globalisation effects, the banking and financial system should be properly geared to cater to the needs of small scale entrepreneurs.

7.11. Scope for Further Research

An attempt has been made in this study to analyse the entrepreneurial performance in SSI sector in the post-globalisation era and examine the contribution of Institutional Finance for the industrial development of Tamil Nadu with regard to small scale industries in Chennai city and its environs. However, a study pertaining to medium and large scale units can also be undertaken for future research work.