CHAPTER – II

SSI/MSME SECTOR IN INDIA AND KERALA- AN OVERVIEW

This Chapter deals with an overview of SSIs in the World, Rural Industries including Small Scale Industries (SSI) / Micro, Small and Medium Enterprises (MSME) in India and Kerala, and the impact of Globalisation on the MSME Sector in India and Kerala.

SSI/MSME SECTOR – WORLD SCENARIO

Small business is flourished in almost all the ancient cultures. The features of small scale industrial units and its objectives are not particular to a State or a Country, but it is extended beyond. The role of small scale enterprises is significant in many countries. The flexibility to adapt to the environment is markedly pronounced in the small business as compared to large business. Subba Rao\(^1\) has pointed out that, the small scale sector has witnessed a dramatic expansion in almost all parts of the world. It is not only in developing countries that have experienced such a phenomenon, but a similar experience has also been gathered by a large number of industrially developed countries like Japan, UK, Germany, USA and Switzerland. Even in the developed countries of western Europe, United Kingdom and USA, there is recognition that small and rural industries play a significant role in complementing the large industry and in providing opportunities for creative energies of the skilled people. It is pointed out by Solomon\(^2\) in USA about 98 per cent of the business were started as small, and a majority of them was concentrated on retail and service related business. Small industries are labour intensive, and employ 35 percent of the USA’s private sector workforce even though they posses less than one fourth of USA’s business assets. Small business generates more jobs for the residents more than twice that the industries generate and produce more than 38 per cent of USA’s GNP and account for 42 per cent of business sales. Small industries creates more innovations than medium and large scale industries.

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A White Paper on New American Evolution stated the role and impact of small firms distinctively spells out the two indispensable contributions to the American Economy. According to the paper, small serve to change the market structure; by serving as constant sources of experimentation and innovation and being an integral part of the renewal process that defines market economies. They also have a crucial role as leaders of technological change and productivity growth. Second, they create opportunities for women, minorities and immigrants and they are an essential mechanism by which millions cater the economic and social mainstream.

As the reduction in the barriers for global commerce continues and the world economy becomes more integrated, there is an increase in the attention being placed on the internalization of small and medium sized enterprises.

Multilateral Investment Guarantee Agency (MIGA) has recently developed a guarantee programme, called the Small Investment Programme (SIP), that is specifically designed for SMEs. MIGA defines SMEs, for coverage under this programme, as firms with not more than 300 employees, value of assets not exceeding US $15 million and annual sales not exceeding US $15 million. The European Union defined SMEs that have employees of less than 250 and with a turnover not exceeding Euro 50 million. Thus, the definition of SME varies from country to country and region to region.

Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs across the globe. Today, many countries have a range of programme in diverse areas, viz, financing, technology, innovation, managerial ability, market information and developmental assistance, aimed at improving the working environment for SMEs. Export Import Bank of India (Exim Bank) has been focusing on SME exporters as a significant target group of clients. In the past, Exim Bank had implemented a number of innovative programmes focusing primarily on SMEs.

SMEs, due to their size limitations, often have limited financial capital and lack of necessary human resources. Many operators of small businesses lack
experience in developing an international strategy. There are also disadvantages related to a lack of competitive power as a consequence of the size of the organisation.

According to Odaka and Swai (1997), the economic history of the twentieth century USA has observed repeated surges of small, yet highly dynamic, venture firms. It is often clustered themselves in a special region to exploit locational externalities, as illustrated by those in the silicon valley in California in the 1980s and onward.

Verma points out the reasons which make small business less dynamic in Europe. They include, the smaller base of European industry and capitalism as compared to USA, the smaller size of the Europe market and no start up at large scale for any innovations, labour market in Europe, which is rigid far higher wages, replacement of labour by automation and spread of unemployment, the inflexible capital market in Europe unfavourable to small business start ups or for small company financing and lower investment climate due to low saving and lower salaries in Europe as compared to USA.

Curran explains that in UK, the development of small business has been mainly concentrated at the creation of self-employment means. He notes that the contribution of small business to national income is smaller in UK as compared to other European countries. But the different incentives schemes were introduced for the promotion and growth of small business sector

According to Hayashi, Japanese medium and small scale enterprises were forced to renew their equipment in search of high efficiency as; they faced a serious shortage of labour during and after the rapid economic growth of the 1960s. The two oil crises forced them to confront increased costs in both labour and materials. The changes and intensification in competition forced them to renovate their operations. Some of Japan’s famous enterprises that maintained a small scale as an ideal size for the development of new products also underwent this process of adjustment.
The role of small scale industries in Italy’s development has been drawn out by Blim.\(^\text{11}\) The emergence of small scale industrialisation in Italy’s central and Northwestern regions is in many ways the most stunning and interesting facet of the remarkable renaissance that has propelled Italy’s economy. It has well past Great Britain and perhaps even France in the Western Capitalist order. In fact post war central and north eastern Italian industrialisation has become the darling of neo liberal development theory because it was at once spontaneous, small scale and flexible in production method, export led and niche finding in its marketing, familiar in organisation and petty entrepreneurial in character.

Small scale enterprises have been promoted in Africa with a view to encouraging broader participation in the private sector with the aim of sustained and balanced growth. According to the ILO /JASPA African Employment Report, the promotion of SSEs and especially, of those in the informal sector, is viewed as a viable approach to sustainable development because it suits the resources in Africa.

Lal and Peedoly\(^\text{13}\) have attempted to examine the standing of small and medium enterprises in Mauritius in the backdrop of globalisation. The challenges faced by this sector are overgrowing and getting more and more complicated. The authors have cited the 2002 census of economic activities, according to which small units have invested a total value of Rs 1.6 billion representing 5.2 per cent of national investment. The highest investment was made by enterprises in the whole sale and retail trade which accounted for 45 per cent of total investment made by all small establishments. Enterprises in the manufacturing sector accounted for only 6 per cent of total investment made by all small establishments.

Per Kins\(^\text{14}\) contend that, the first and foremost, China is developing a rural small scale industry because this strategy is believed to be doing a better job of supporting agriculture than did the large scale strategies of the past. Explaining the rational behind the development of small scale industry in China, the authors write “the rationale for the use of small scale factories in rural areas begins with a recognition of the inadequacies of China’s rural transport and marketing systems and
re-enforcing the effects of high transport costs is the nature of China’s rural commercial system. Even when communes are prepared to pay the going price for some desired item, it won’t necessarily be available. It may get it faster if it builds one on its own”.

Stokke\textsuperscript{15} has attempted to find out whether small scale industries in Hambantota District, Sri Lank over experiencing a dynamic growth or are constrained by structural conditions leading to pauperization. The context of his work has come from the Hegemonic Theories of Third world regional development maintains that growth in rural small scale industries can originate in growth linkages from modernized agriculture or in entrepreneurship development with in the non farm sector with the growth linkages to export oriented ;industries. A Survey of small scale industries in Hambantota District reveals; that the market conditions are crucial in facilitating or limiting growth in local small scale industries.

A division exists between industries operating solely in local market and industries selling some of their products in non local markets. The latter group consists of traditional activities that have been reactivated through sub contracting. The former groups of industries are integrated in the larger economy through market competition with non local goods and through classic specific consumption linkages. Certain industries within this group are reproduced at a low level of productivity by producing cheap goods for low income peasant and wage labour house holds. On the other hand improved social conditions and numerical growth of households employed in the service sector create limited growth in other industries. Consequently, it is argued that the growth of rural small scale industries is not primarily a matter of internal constraints but is contingent on their position in larger political and economic structures. In the specific case of Hambantota District, the dominant process experienced by small scale industries at the moment is more accurately described as preservation their dynamic growth.

The Times of India reports\textsuperscript{16} that small industries have helped take the per capita income of Taiwan to $13,000, that is 40 times higher than India’s. Referring to
the competition from MNCs, the article reports that in Taiwan small firms see MNCs as an opportunity, not a threat. Small firms are much more flexible and simple than a limbering giant, they are able to produce components more cheaply and shift constantly to new lines of production. Small industries face problems in infrastructure and marketing. The Taiwan government helps the small industries to overcome problems faced in infrastructures and marketing. It has created industrial and scientific parks with world class infrastructure. It finances exhibition space and the cost of shopping exhibits to industrial fairs the world over. Its educational system creates quality skills. It has training courses for small managers. That it has created conditions for small companies to become world class, small exporters get duty free inputs.

The role of small scale enterprises is significant in many countries. The flexibility to adapt to the environment is markedly pronounced in the small business as compared to large business. Half to Two Thirds of business all over the world are small land medium enterprises, which have traditionally been known for the agility of their response to changing environment. According to Singer “even in terms of productivity small industries (less than 100 employees) produce about 90 per cent of the average industrial out per person in the United States and about 85 per cent in the United Kingdom”. Japanese business in the small manufacturing sector is attributed to the long term planning structured changes and efficient allocation of resources in the economy. Japan known for its unique style in management has developed an integrated system of subcontracting, whereby the small producers stand to benefit from large volumes of marked potential, United Kingdom considers the small firms are crucial to the development of the country. These firms are regarded as breeding ground for new entrepreneurial talent and new ideas with inbuilt flexibility to adapt to dynamic business environment. Over the last 20 years, there has been marked increase in the number of small business in the economy of the UK. From 1980-1993, the number of small firms grew around 8 lakh. The vast majority of registered business is small. 96 per cent of the firms have less than 20 employees. Firms with less than 100 employees account for 50 per cent of employment.
In Europe, Italy stands out with its efforts at providing for free play of private initiative and motivation in the medium to cottage industries. Italy’s system is characterised by the industrial districts system where small enterprises are coordinated by single sector production. Products are highly competitive and have high quality precision. A Canadian government document states that small owner managed firms are a mainstay of employment in cities and towns across the country. The supply of goods and services essential to consumer and other business, and they demonstrate the innovation and entrepreneurship from which successful entrepreneurs must spring up. A study of the small scale sector’s contribution in Taiwan’s economy demonstrates that the small business sector acts as an entrepreneurial growth engine in economic development. Korea and Indonesia have of late started focusing more attention on the growth of the SSI by reserving items for exclusive production by the Sector. China has predominant small industry sector contributing to the national economy. China is said to continue to rely on Mao’s aphorism of walking on two legs- “one small and the other large”. The achievement of Germany in the SSI sector can be attributed to the move towards decentralization of activities by large number of enterprises, small as optimum size for new products, and liberalization of economic activities. Germany keeps up her long tradition of craft system in the manufacturing field. Heterogeneity rather than homogeneity is the specialty of small enterprise system in Germany. The share of SMEs in terms of number of establishment is by far the largest, the contribution to SMEs in terms of output and exports is more diverse in Asian economies.

Tewari and Pandey have outlined the first attempt to define small industries in India. They write that the first attempt was made by the National Planning Committee of the Indian National Congress set up in 1938. The definition emphasized upon the importance of human skill. Family labour and self management in running a village and small industrial unit. In a not submitted to the sub committee of the National Planning Committee by the Chairman of the committee, Jawaharlal Nehru, has drawn a distinction between cottage and small industries on the one hand.
and the small scale and large scale industries on the other on the basis of utilisation of mechanical power and hired labour.

**RURAL INDUSTRIALISATION AND SSI / MSME SECTOR IN INDIA AND KERALA**

**RURAL INDUSTRIALISATION**

Today everybody comes to recognize that unemployment, disguised unemployment and underemployment are the basic causes of mass poverty in India. Thus, poverty can be attacked only by providing gainful employment to the masses. In fact generation of gainful employment opportunities has been a common objective of Five Year Development Plans. Underemployment of our agrarian economy was considered to be the basic melody. Poverty, unemployment and other economic ills were considered to be the symptoms. Underdevelopment was planned to be remedied through rapid industrialisation. The stress was on the development of the basic and heavy industries. Such a strategy could not create employment opportunities on the scale required under conditions of rapid growth in labour force. Large scale industries have failed to solve the problems of unemployment. A large proportion of idle man power is concentrated in the rural areas. The heart of the unemployment problems in India, thus, lies in its rural sector.

A country has to embark upon industrialisation for quickening the pace of economic development. The net value of output per person is higher in industry than in agriculture due to the greater scope for internal as well as external economies.

Jawaharlal Nehru\(^\text{23}\) correctly expressed the need when he said, “real progress must ultimately depend upon industrialisation. Planners and visionaries have looked upon industrialisation as the main vehicle for improving the living standards of the people\(^\text{24}\). In the beginning of this century, M. Viswesvaraya opined, “industrialise or perish”\(^\text{25}\).
The Objectives of Industrialisation are: To promote economic development and increase income level, to increase employment and remove unemployment, to strengthen foreign trade, to stimulate the development of other sectors, to develop strategic industries and to safeguard defensive requirements.\textsuperscript{26}

Scholars and economists from the time immemorial have recognised the importance of industrialisation as a means for achieving rapid growth and prosperity. Elaborate discussions on the role of industry in fostering development is found in Kautilya’s Arthashastra.\textsuperscript{27}

Industrialisation, on the whole, plays an important role in the development of underdeveloped countries. In a developing country like India, the small scale sector occupies an important place in the industrialisation. In addition to national programmes, governmental, non governmental and international organisations working in developing countries also consider small enterprise promotion to be an important components of industrialisation and employment creation.\textsuperscript{28}

Only rapid industrialisation can help developing countries substantially to increase opportunities for employment in the non agricultural sector, exposed the production of inputs needed to increase agricultural output and multiply the number of plants available for processing farm commodities.\textsuperscript{29}

The country has made progress in various directions. But it has failed to solve the problem of abject poverty. Economic Development demands industrialisation. Balanced regional development, an important component that industrialisation calls for rural industrialisation. Planned economic development in India has brought about a substantial increase in the national income.

Rural industrialisation has a broader connotation. It implies the optimum utilisation of local skill and manpower and raw materials. It implies a process of all round, self sustained development of manufacturing activities in the household and small scale sections, so as to provide employment to the rural people and raise their income. The Rural Industrial Sector includes Traditional, Non traditional, Cottage,
Village and Small Scale Industries. Rural industrialisation is commonly understood as the development of Traditional and Non traditional, Village and Small Industries in rural areas.

RURAL INDUSTRIES IN INDIA

Rapid industrialisation in villages is a vital necessity for developing the country and making the people economically independent. Besides agriculture, rural arts and crafts give gainful employment to a large number of rural population. The industries in our country includes organised large and medium industries and small industries and unorganised traditional industries. The last two, Village and Small Scale Industries constitute an important segment of the economy. The concept of rural industries include Village and Small Industry, Village Industries, Handloom, Sericulture, Handicrafts, Coir and Modern Small Scale Industries.

The concept of the rural industrialisation has been beautifully summed up in the following words, “it begins with the assessment of resources, human and material, locally available in a selected area. Assessment is also made on a pattern of demand present and future and a production plan is formulated for area for ensuring minimum needs of the people by using local resources and skills and appropriate technology. In this plan more emphasis is given on using local resources both human and material. The direction of the plan should be towards achieving their minimum needs with local resources. Thus, employment is not the target or objective but an effect or result. The target is improving the standard of living of the people, and while doing so care has to be taken to see that harmonious balance between the Primary, Secondary and the Tertiary Sector is not disturbed in any way 30.

SIGNIFICANCE OF RURAL INDUSTRIES IN INDIA

India has realised the importance of the rural industrialisation. But various approaches adopted towards rural industrialisation have not been successful. High priority was given to capital goods industries even during the Second Five Year Plan.
The country should have opted for a labour incentive pattern of industrialisation, starting from similar consumer goods and moving gradually thereafter to intermediate and capital goods. The rural industrialisation programme should be area specific. The setting up of big units in backward area is not going to help local people.

Industrialisation, because of its flexibility, innovativeness and dynamism is an important tool for economic development. It is a means to distribute employment, income and consumption goods among the various regions and groups. Industrial activities have greater potentials for generating employment directly and indirectly through forward and backward linkages, with other sections of the economy. They are very effective in raising productivity of labour which is an essential requirement for economic development.

The rural industries enable the villages to develop initiatives co-operation and spirit of self reliance. They also help the utilisation of the available manpower for processing the locally available raw materials by adoption of simple techniques. These industries have capacity to correct the regional imbalance by initiating industrial activities dispersed in the most neglected, backward and inaccessible areas, where perhaps large scale sector is unable to penetrate.

The Chinese pattern of industrialization is said to have been based on forward and backward linkages. The Chinese rural projects are based on diversity in rural resources and needs, whereas those on India appear to be almost of a straight jacket and uniform model since rural industrialisation in China is an outcome of the total area planning in its comprehensive terms, it does not suffer for the deficiency in one sector for the benefit of another sector.

OBJECTIVES OF RURAL INDUSTRIALISATION

The aims of rural industrialisation are to provide full employment through balanced occupational structure of income and asset distribution within rural areas. Rural industrialisation should cover household based industries, agro-based
industries and industries aimed to producing consumer goods in demand in rural areas, besides secondary goods and services required business activities.

The availability of demand for the products of rural industries should be studied in depth. Underlying the availability of demand is the question of generation of income and disposition unless we know how much is likely to he generated and the associated pattern of expenditure, demand for rural industries can not be ascertained. Sustained progress on the rural industrilisation front requires policies to strengthen the linkages 32. The maximum productive employment of local resources, revival and development of traditional industries and skills, narrowing down the disparities between rural and urban income and integration of development in agriculture with industry are other objectives.

ROLE OF RURAL INDUSTRIALISATION IN INDIA

Rural industries have an entirely different pattern of development. These industries employ very small amount of capital and employ more human labour. The following basic features of rural industries highlight their role in the Indian Economy:

1. Capital Light

Rural industries employ very small amount of capital. In our country where capital is scarce, Village Industries appear to be most suitable.

2. Employment Potential

Rural industries use labour intensive techniques of production. These industries provide maximum employment per unit of capital invested. Rural industries are of great significance in solving the problem of seasonal employment.
3. **Production of Consumer Goods**

Rural industries produce a large variety of consumer goods and thus helps in maintaining regular and adequate supply of essential commodities. By augmenting the production of consumer goods the village and small scale industries save the economy from the evil effects of inflation.

4. **Economic Equality**

Rural Industries are the glaring examples of decentralised industrial structure. These industries help in raising the level of income and standard of living of the rural masses.

5. **Beneficial to Agricultural Labourers**

Industries allied to agriculture provide additional income resources to the farmers and other people.

6. **Full Use of Localised Materials**

Rural industries can make the best possible use of the utilised or under utilised local resources.

7. **Balanced Regional Development**

Rural industries do not show any tendency of concentration in a particular area. These industries are scattered all over the country. This helps to balance the regional development of the country.

8. **Mobilisation of Savings**

Rural savings are generally frittered away in unproductive consumption and unnecessary litigation.
9. Economic Uplift of the Poor

Rural industries provide economic protection to the weaker sections of rural community by offering them means of livelihood.

10. Contributing to Exports

Over the last few years, the contribution of handicrafts to the total export earnings has sharply risen and these goods now occupy pride of place on Indian exports list and earn precious foreign exchange for the country.

11. Complementary Role

Rural and Small Industries produce components, Spares and Small Parts needed by the large scale industries. Likewise, large scale industries produce a variety of semi finished and finished goods which are used by the Village and Small Scale Industries.

12. Import Light

The rural industries require very little imported materials compared to large scale in Industries.

13. Skill Light

The rural industries are simple in nature. They can be started and operated easily. The traditional rural industries are operated with the help of family labour.

14. Quick Yielding

The rural industries are quick yielding in nature. The time lag between investment and return is short.
15. **Less Administrative Problems**

In the rural and small scale industries, there are less administrative and managerial problems. The rural industries require less management and supervisory skills.

16. **Foster Women’s Liberation**

Due to various social taboos, illiteracy, superstition and poverty, the rural women can not go to distant places in search of employment. Khadi and Village Industries are most suitable to provide engagements to the rural women.

The World Bank has also supported that growth in industrial employment has to be given top priority for future poverty reduction in India as the present growth rate in rural industrialisation is insufficient to absorb all potential labour force in the rural economy. It has been decided that on the basis of scale of operation and primary function, the industries are classified into Four in the rural areas during the Eight Plan. They are:

i. Traditional village Industries

ii. Light Industries

iii. Heavy industries and

iv. Medium Industries

**VILLAGE INDUSTRIES IN INDIA**

In the traditional sector industries are mostly carried out as household or cottage activities. The village industries are also formed as small industries and consist of a wide range of industrial activities. Till now some 26 type of industries have been identified for being promoted as village industries. The village and small scale sector, in the national interest is required to have greater focus in terms of
investment, technology upgradation, infrastructural support, marketing and credit facilities, testing quality certification and training facilities.

The role of village and cottage industries in rural development is considered vital as they are the very backbone of the Indian rural economy with 70 per cent of our population still living in rural areas. This fact has been duly recognised by all concerned. These industries along with farming have the unique capacity of generating employment opportunities in the villages for rural youth and women folk that constitute a large chunk of rural population. Moreover, these industries are supposed to constitute substantially to the promotion of the general industrial scenario in the country also and there by to the general economy. A few of the important rural industries include Khadi, Gur Marketing, Carpet Weaving, Manufacturing agricultural tools and implements, Bee-keeping, Carpentry work, Candle and Match Box making, Hosiery, Gems and Jewellery and Food, Fruit and Vegetable Processing.

**KHADI INDUSTRIES**

Khadi means cloth woven handloom in India from cotton, silk, or woolen yarn handspun in India or from a mixture of any two or all of such yarns. Khadi evokes a sense of Nationalism, peace and simplicity, among Indians, as it is closely associated with India’s freedom movement led by Mahatma Gandhi. Khadi stands for Indian culture and represents a way of life as well as a model for economic development of Indian villages.

**VILLAGE INDUSTRIES**

Village Industry means any industry located in rural area (population of which does not exceed 20,000 or such other figure) which produces any goods or services with or without the aid of power and in which the fixed capital investment (in Plant and Machinery and Land and Building) per head of an artisan or a worker does not exceed Rs. 50,000/-.
The definition of village industries has been recently modified by the Government so as to enlarge its scope. Accordingly, every industry located in rural area or village or town with a population of 20,000 and below and a per capital investment of Rs. 50,000/- in Plant and Machinery is classified as a Village Industry. As a result of widening of scope of village industries, 70 percent of new village industries have been added making a total of 96 as against 26 industries earlier.

**KHADI AND VILLAGE INDUSTRIES PROGRAMME**

Any segregation of Khadi and Village Industries and the rural industrialisation programme would be unwarranted. The segment of rural industries to be set up new under the rural industrialisation programme, which cannot and need not be on higher scales, than the Khadi and Village Industries will have the same character and problems as the Khadi and Village Industries have.

Khadi and Village Industries programmes are the most effective means to eradicate rural unemployment and uplift them. The policy and programmes for the Khadi and Village Industries are implemented by Khadi and Village Industries Commission (KVIC) through 30 State Khadi and Village Industries Boards (KVIB), 2500 Institutions and 30000 Co-operatives, besides 6 lakh individual artisans. This sector provides employment for about 50 lakhs of persons to 15 lakhs in Khadi and to the remaining 35 lakhs in Village Industries. Today the production and sales achievement have touched the figure of Rs.2500/- crores annually of which Village Industries contribute about Rs. 2250/- crores.

**SIGNIFICANCE OF KHADI AND VILLAGE INDUSTRIES**

The significance of Khadi and Village Industries lies in their capacity to use locally available raw materials, local skills and local markets, low per capita investment, simple techniques of production which can be easily adopted by the rural people, short gestation period and above all production of consumer goods.
Khadi, the handspun and hand woven cloth had been used in India from the beginning of Indian civilisation. It had been a part of Indian economic and cultural life. Khadi earned prominence in natural movement against colonial regime. Ambar Charka was developed and extensively used for the production of khadi yarn all over the country, later, small machines were developed for Khadi yarn production. There are many varieties among khadi cloth materials. They are:

1. Khadi Cotton;
2. Khadi Silk;
3. Khadi Wollen;
4. Poly Vastra; and
5. Khadi Muslin

These Khadi dress materials are used to make shirting’s, dhotis, saris and readymade garments, khadi muslin shirting, khadi silk, Printed Saris as design woven saris are in great demand all over the country.

At present, the village industries, apart from Khadi coming under the purview of the KVIC are:

1. Collection of forest plants and fruits for medicinal purposes;
2. Manufacture of household utensils from Aluminum;
3. Manufacture of Rubber goods, dipped latex products;
4. Manufacture and use of methane gas and manure;
5. Lime shell and other lime products;
6. Fruit Processing and Preservatives;
7. Processing of Cereals and Pulses;
8. Small Electronic Industries;
9. Non edible Oils and Soaps;
10. Fire works and Agarbathi;
11. Manufacture of Shellac;
12. Bamboo and Cane Works;
13. Gaur and Kandasari;
14. Village Pottery;
15. Village Leather;
17. Gums and Resin;
18. Bee Keeping;
19. Cottage Match;
20. Black Smithy;
21. Ghani Oil;
22. Bio Gas;
23. Palm Gur and Palm Products
24. Carpentry;
25. Fiber; and
26. Katha and Gum Resins
Khadi and Village Industries Commission and Khadi and Village Industries Board have set up retail outlets all over the country for the selling of products made by these industries. Thus, the services rendered to the Cottage, Tiny and Small Scale Industrial Sector by Khadi movements is immense.

The Village and Small Industries with their low capital, labour and capital output ratios, high export potential, employment and locational and social synchronisation have a very important role in the Indian economy characterised by its vast spatial spread, large unemployment and underemployment, rapidly racing labour force, capital and foreign exchange scarcity, numerous market segments and diverse demand pattern, broad and diverse resource base and supply, predominance of widely scattered numerous village settlements, a growing modern large scale industrial sector giving scope for exhilaration and so on.

**KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)**

The Khadi and Village Industries Commission established by an Act of Parliament is mainly a service organisation engaged in promotion and development of Khadi and Village Industries in rural areas. It is an autonomous body which has been entrusted with the task of looking after the interest of rural industries in India. This commission gives a boost to rural industries, executives rural employment generation programmes, arranges working capital from commercial banks and other financial institutions and gets budgetary support from the Government of India. In addition to the efforts of expediting normal progress the Khadi and Village Industries Commission has designed various schemes to improve inherent skills of the rural population.

The main objectives of the Khadi and Village Industries Commission includes:

1. Providing employment in rural areas;

2. Skill Improvement;
3. Transfer of Technology;

4. Promoting self-reliance among the people and building up strong rural community base; and

5. Rural Industrialisation

FUNCTION OF KVIC

The KVIC was designed to be a policy making executive body entrusted with varied functions. The function ranged from undertaking production of Khadi and Village Industries to marketing and from training the artisans to developing the agencies to propagate their products. At the same time some of the functions of KVIC are purely advisory in nature. On the whole, it is given comprehensive coverage and powers for the overall development of Khadi and Village Industries.

The State Khadi and Village Industries Boards were constituted in all States and Union Territories. At present, there are 30 State Khadi and Village Industries Boards functioning all over the country. These Boards are mostly assisting the implementing agencies involved in the Village Industries programmes. In general, about is 78 per cent of Khadi and Village Industries, production programmes are implemented by the State Khadi and Village Industries Board.

GROWTH OF KHADI AND VILLAGE INDUSTRIES

In 1955-56, there were only 2 State KVI Boards, 242 Registered Institutions and 60 Co-operatives which have now increased to 33 States / Union Territories Khadi and village industries Boards, about 5000 Registered Institutions, 30129 Co-operative Societies and 8.64 lakh Individual Units in more than 2.95 lakh Villages in the country. Production, which goes at the level of Rs 16.47 Crores (Khadi Rs 5.54 Crores and Village Industries Rs 10.93 Crores) in 1955-56, has increased to the level of Rs 12,664 crores (Khadi Rs, 471 Crores and Village Industries Rs 12,193 crores) in 2005-06. Similarly employment level has also increased to 82.20 lakh persons (Khadi 8.70 lakh and Village Industries 73.50 lakh persons).
The KVIC has achieved a record performance under Rural Employment Generations Programme (REGP) for the second time during the year 2005-06 exceeds the employment targets. The performance shows an achievement at 567,676 persons as against the target of 556,000 persons. During 2009-10 Khadi and Village Industries Board provide employment opportunities to 153,498 persons, value of production was 12,624 lakhs and the sales amounted to Rs.14359.88 lakhs.

RURAL INDUSTRIALISM UNDER FIVE YEAR PLANS

The development of industries in rural area has been an important feature of the industrial policies and programmes for rural development in India. The important role which rural industries can play ameliorating the socio-economic conditions of the rural people has received emphasis in most of the major policy pronouncements on development in India. The Industrial Policy Resolution of 1948\(^35\) laid stress on the utilisation of local self sufficiency in respect of certain essential consumer goods as the most suitable characteristics of Cottage and Small Industries. This approach was followed in the First Five year Plan. But the development rural industries was conceived largely in isolation of the rest of the economy. The First Five Year Plan\(^36\) set out the principal concern of Government, committed to a socialistic pattern of society and the imperative of state intervention for guiding development of the economy. The plan stressed the development of agriculture, industry, infrastructure and social services, but all this in a manner that maximum feasible additional employment opportunities were created to raise the standard of living of the poor. It, therefore, visualised a common productive programme, whose industrial development is so organized that small and cottage sectors, which are more labour intensive, would have their assigned place along with the organised large sector and proceeded to identify the contribution of such sector for meeting the total requirements of the community for a number of industrial products. The plan explicitly recognized the need for closely integrating rural industries programme of agriculture development. The Industrial Policy Resolution of 1956\(^37\) under scored the fact that rural industrialisation is favourable to the creation of employment to an equitable distribution of income and to the mobilization of capital and skills.
The Second Five Year plan 38 (1956-57 to 1960-61) looked upon rural industries as an integral component of the national economy. It was, however, in the Second Five Year Plan that a strategy for the Indian Economy was comprehensively set out. In this strategy, there was a clear enunciation of the approach to Industrial Development. While opting for rapid industrialisation, the second plan chose, the route of priority development of basic and heavy industry giving an important role in this development to the public sector. In this plan, serious attention was given to rural industrialisation. In the 26 pilot industrial projects, a special dimension was added to the programme of development of rural and small industry.

The Third Five Year Plan 39 (1961-66) dealt explicitly with the wider problem of balanced regional development. The plan included a proposal for setting up Industrial Development areas in backward regions. The plan also laid more emphasis on the need to disperse small scale industries encouraging growth of industries in rural areas and small towns as well as industrially less developed areas having a marked industrial potential. The Third Plan intensified industrial development efforts in the rural areas through a systematic Rural Industrialisation Programme (RIP). During the Third Plan period rural industries projects were implemented in 49 selected areas to promote Village and Small Industries, including Ancillary Industries.

The Fourth Five Year Plan 40 (1969-74) proposed, in addition to the earlier package, introduction of incentives in the form of capital subsidy and a concessional finance scheme, for industries located or to be located in backward areas.

The Fifth Five Year Plan 41 (1974-79) broadened the rural industries programmes specially to cover entire districts, except the town in each projects and 100 new districts were included in the programme. The Fifth Five Year Plan emphasised the need to ensure, that the industrial development of under developed areas, was consistent with basic economics of the location.
It may be stated that rural industrialisation was also the main focus of developmental efforts in the rural areas during the Fourth and Fifth Plan. The Fifth Plan in particular called a new dimension by recognising the need for developing appropriate technology and technology transfer to rural areas.

The Sixth Five Year Plan\(^42\) (1980-85) emphasised the need for the revitalisation of traditional industries and the raising of their productivity by an upgradation of skills and techniques. A positive effort was made to disperse these industries over a wide area, particularly in rural and semi-urban areas. Industrial Policy of 1980 emphasised the need for industrialisation in the industrially backward areas/ rural areas in India. During the 1980s considerable advance had already been made in the manufacturing sector. India’s industrial structure had acquired the depth and diversity of continuing expansion of the range of goods and services and to absorb advanced technology. The proliferation of small industries with active policy support, had resulted in the development and nature of a considerable body of entrepreneurial talent. The policy of regional dispersal of industries, has also had some impact, though, the objective of the promotion of the village and decentralised household industries, has not had the same degree of success.

The rural industry sectors constitute an important segment of the rural economy in terms of employment, output and exports during the Seventh Plan\(^43\) (1985-90). The policies and programmes for this sector shall lay emphasis on the industrialisation of fiscal and taxation policies. The seventh five year plan includes the provision of appropriate infrastructure, the introduction of modern management techniques, the upgradation of the skills of artisans, the propagation of appropriate technology and the adoption of a coherent marketing strategy, both the internal and export marketing. The policies should not, on the other hand, be such as would discourage the natural growth in the size of tiny rural industries. The organizational set up will have to be revamped to meet the changing higher to technological needs in terms of a well programmed human resources development. Adequate and well programmed extension training and entrepreneurial motivation will have to be undertaken.
An Industrial development strategy has to be based on adequate infrastructural Growth Centres. The policy framework must also disperse industry from urban concentration.

Processing facilities for upgrading the quality of Khadi and Marketing strategy for the diversification of its use will be pursued and organic linkages established between Khadi and Village Industries Commission and State level Khadi and Village Industries Boards. Commercial borrowings were necessary, assisted by differential interest rates subsidised by the KVIC will be increasingly utilised instead of direct KVIC financing village industries and homely crafts development will be pursued through appropriate policies.

The strategy for the Seventh Plan is that the programme and policies have to be oriented to the objective of providing productive employment to every one seeking it and in every sector, priority has to be given to activities which contribute most effectively to this end. The implementation of such restructuring of growth for employment and income generation for the poor have to be worked out.

The Seventh Plan stressed on rural development particularly on rural industries through an integrated rural development approach wherein all sections of rural economy and all special purpose state development schemes were taken up for the development in an integrated manner.

Further emphasising the need for rural industrialisation, the Seventh Plan stressed that rural industrialisation had to be given its due importance so as to check the exodus of rural artisans to urban concentration. The policy pursued during the plan period aimed at rationalisation of fiscal regime to ensure rapid growth of rural industries. Strengthening of infrastructure adoption of modern management techniques, development and dissemination of appropriate technology, skill, quality and productivity improvement were some of the measures undertaken during the Seventh Plan. All these measures led to considerable success and Khadi and Village Industries activities registered an increase of 103.5 per cent by the terminal year of the Seventh Plan in 1989-90.
In the Eighth Plan (1992-97), one of the areas of priority was generation of adequate employment to achieve near full employment by AD 2000. Several activities like processing of agricultural produce in rural areas, sericulture and allied activities have been identified as critical goals in priority. During different plan periods, efforts were made to spread the KVI activities far and wide. However, these programmes could reach 2.45 lakh villages in the country out of over 5.5 lakh villages so far.

Small Scale, Khadi and Village Industries play an important role in the Indian economy in creating income and employment opportunities in the rural, semi-urban and urban areas. Khadi and Village Industries generate production at low capital cost, promote use of local raw materials, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local skills, utilise local 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The growth of Small Scale Sector (SSI) has been one of the most significant features of planned economic development. During the last three decades, this sector has shown consistent growth rates in the sphere of production and exports.

The approach to the Ninth Five Year Plan (1997-2002) high lights the following development strategies for the Village and Small Industries Sector.
i. The small scale and village industries will be provided incentives and support to facilitate their growth and employment. It will be ensured that foreign investment does not displace such industries.

ii. The interest rates for the small scale industrial sector will have to be revised taking into account the inflation and to enable the achievement of minimum economies of scale and upgradation of technology as to withstand emerging competition.

iii. The list of items revised for small scale industry will be reviewed with a view to achieving benefits of scale, technological and export capabilities.

iv. Credit flow to SSI will be augmented. The financial institution will be motivated to offer factoring services to SSIs in addition to the present system of discounting bills.

v. The coverage of programmes such as the Prime Ministers Rozgar Yojna will be enlarged to create new self employment opportunities for the educated unemployed.

vi. The Khadi and Village Industries Commission will be organisationally and financially strengthened to be able to generate more job opportunities under the 2 million job programmes in Khadi and Village Industries.

vii. Technology development and upgradation in the village and small industries sector, especially in the case of small scale industries, handlooms, power looms, coir, handicrafts and wool will receive special attention.

viii. In the case of sericulture, which has a large rural employment generation potential, in addition to enhancing credit availability on easy terms, special attention will be paid to improvement of quality of raw-silk by introducing better silk warm breeding practices.
ix. In the case of wool industry, special attention will be paid to improvement in sheep breeds, adoption of scientific animal husbandry practices enlarging the availability of grazing areas to the shepherds and enhancement of pre-loom and post-loom facilities.

x. New institutional mechanism will have to be evolved for augmenting credit flow to informal and rural new farm sector.

The Nineth Five Year Plan of KVIC restated the main objectives of the special programme as:

To undertake an intensive programme of employment generation in the related district so as to generate sustainable employment for 10,000 person per district in five year through KVIC programmes.

To undertake intensive development of 125 blocks with an aim to provide employment to 1000 persons in each block.

To ensure reasonable minimum wages/earnings to the beneficiaries by taking up economically viable Khadi and Village Industries activities with the due care for marketing of products.

The strategy put forth in the eighth Five Year Plan to achieve the set objectives included among others, continuation of District Special Employment programme in already covered districts and further coverage of 15 districts on an average every year. The programme has been initiated in 46 districts and during the year 1997-98 performance has been received from 20 districts. For inviting active participation of Panchayat Raj Institutions in Khadi and Village Industries activities, meetings were organised at Bangalore, Hyderabad, Chennai, Thiruvananthapuram, Patna, Bhuwanesar, Chandigarh, Culcutta, and Ahemadabad during the year 1997-98. These meetings were attended and addressed by the State Ministers, Bankers and Panchayath Raj Institutions. The other special programme for employment generation is the 125 block development programme launched in
1994-95 to commemorate the 125th anniversary of Mahatma Gandhi. 160 Institutions have taken up this programme in 121 identified blocks till the year 1997-1998.

The 10th Five Year Plan Period 2002-2007 gave priority for sector wise allocation of funds to the public sector, private sector and small scale industries sector instead of particular allotment to Khadi and Village Industries Sectors.

During the year 2004-05, under Rural Employment Generation Programme of the Government of India, Khadi Board has disbursed an amount of Rs. 437.23 lakhs to 436 units as margin money grant by creating employment opportunities to 7492 persons. Financial assistance given for conducting workshops, exhibition and other schemes under PRODIP implemented during the period has been extended to Uzhamalakkal Khadi Production Centre at Thiruvananthapuram project.

During 2004-05, 537 Co-operative Societies, 1196 Registered Institutions, 12805 Individual units and 389 Departmental units were financed under the pattern of Corporation Bank Credit schemes through Khadi Boards.

During 2008-09, the Board received an amount of Rs. 5.50 Crores under plan and Rs. 20 crores under non-plan of which Rs. 5 crores was towards special rebate on retail sale of Khadi. Khadi and Village Industries Commission has also released an amount of Rs. 109.02 lakh grant to the Board for its various programmes. The Khadi Board has spent an amount of Rs. 26.53 crores which contributes 99.78 percent of the amount received for the year 2008-09.

A major scheme of the Khadi and Villages Industries Commission for employment generation is the Prime Ministers Employment Generation Programme, a new credit linked subsidy programme by merging Prime Ministers Rozgar Yojana (PMRY) and Rural Employment Generation Programme (REGP). Under this programme the Board disbursed margin money grant of Rs 102.10 lakh to 45 projects and generated employment opportunities to the tune of 314 persons during 2008-09.
During the year 2009-10 an amount of Rs 222.65 lakhs has been disbursed as margin money grant to 89 projects which has created 645 employment opportunities. The Board could produce goods worth Rs 12624.82 lakhs and sell goods for Rs. 14359.88 lakhs by providing employment to 153498 persons during 2008-09.

SMALL SCALE INDUSTRIAL SECTOR IN INDIA

Small business enjoys a tradition of infinite variety and solid achievement. Small business flourished in almost all the ancient cultures. The Arabs, Babilonians, Egyptians, Jews, Greek and Romans excelled at it.

In a resource scarce and labour surplus economy, small scale industries have been recognised as an important tool of economic growth because of its capability to provide large scale employment at low level of capital investment, and also for contributing towards dispersed development. Rajiv Gandhi correctly expressed the need for the development of small scale sector in his speech delivered at the national convocation on small scale industries which was organised by the Federation of Association of Small Industries of India in New Delhi in September 17th 1986. He said, “small scale sector is one of the main legs of our industrial development”.

V.P. Singh at the concluding session of National Development Council meeting on June, 19th 1990 also expressed the need for development of small sector by saying “it is the small scale sector which has given a large volume of employment and also boosted our exports”.

Mahatma Gandhi once said: “the poor of the world can not be helped by mass production, only by the production by the masses. If large number of producers were to exist for wider markets, the entities that produce necessarily be small. It is only the earth that is large. All else is small.”

In the words of Nanjappa, Small scale industry is a “golden mean” which can bring the benefits of modern technology and economic production and can
emerge as an important plank to tackle the problems of unemployment, underemployment, regional disparities and economic backwardness.

Jayaram Vyas\textsuperscript{54} opined that small scale industries have the capacity to achieve economic growth faster in view of their small gestation period, high employment potential and relatively limited financial requirements. In a developing nations like India, where population is high and income are low, it is inevitable to develop the small industrial sector, which absorbs more men with low capital.

Balanced regional growth is a socio economic requirement for all round development of the nation. Large industries have a tendency to cluster around big cities. It creates economic and social evils like pollution, slumps and shortage of civic facilities. It can be eliminated by setting up of SSI Units in under developed areas and by providing employment to local people\textsuperscript{55}.

In the case of small scale units the gestation period is lesser than large scale industrial units. SSI units are less dependent on imported machinery and raw materials. They usually use locally available raw materials\textsuperscript{56}.

The Small Scale Industrial Sector plays a pivotal role in the Indian economy in terms of employment, and growth has recorded a high rate since independence in spite of stiff competition from the large sector and not so encouraging support from the Government. This is evidenced by the number registered units which went up to 16,000 in 1950 to 36,000 units in 1961 and to 28.57 lakhs units in 1996 -1997. The employment has grown from 4 million to 16 million and the output increased from 72,000 crores to 4,18,863 crore in 1996 - 97\textsuperscript{57}. In 2000-01 there were 33.7 lakhs SSI units. As a result of the various ongoing schemes and programmes, the number of SSI units, including Tiny Units, has increased to 35.72 lakhs in 2002-03. At present, the sectors contribution is 39 percent of industrial production and 34 percent of national exports. It provided employment to over 300 lakh persons in 2002-03\textsuperscript{58}.

During the last decade alone, Small Scale Sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated and
precision products like electronic control system, micro-wave components, electro-medical equipments, TV sets, VCD and DVD Systems.

The value of exports increased from Rs 1643 crore in 1980-81 to a record high figure of 39,238 crore in 1996-97. A very significant feature of exports from the Small Scale Sector is their share in non-traditional exports. The share of exports from the Small Scale Sector represents about 34 percent of total exports in 1996-97. There are 110.10 lakh registered Small Scale Units in India, of which 14.68 lakhs as registered and 95.42 lakhs as unregistered units. Employment provided to the tune of 261.38 lakhs persons, production at current prices were Rs 3,11,993 crores and Rs 86,013 crores as export in 2002-03 which increased to 123.40 lakhs Units, employing 294.90 lakh persons, production at Rs 4,70,966 crores and Rs 1,24,416 crores as export during 2005-06. During 2009-10, total exports from SSI/MSME sector was Rs 84255 crores.

**SMALL SCALE INDUSTRY AND ECONOMIC DEVELOPMENT**

India is a developing country and its economy is growing. A very high rate of working population in the country depends on agricultural sector. The contribution of agriculture to the national income is more than that of the industrial sector. Many new industrial production units emerge and stretch wide over the nation. Industrial sector flies to the heights of progress with two powerful wings viz., Large Scale Industries and Small Scale Industries. It is doubtless to say that along with the development and growth of Large Scale Sector, the Small Scale Sector is also very crucial along side to develop and grow, and it cannot be discarded.

**TYPES OF SMALL SCALE INDUSTRIES IN INDIA**

The small scale Industrial undertaking may by:

a. Small Scale Industrial Undertaking as such

b. Ancillary Industrial Undertakings
c. Tiny Enterprises

d. Women Entrepreneurial Enterprises

e. Small scale Service and Business (Industry Related) Enterprises; and

f. Export Oriented Units

SMALL SCALE INDUSTRY

A significant feature of the Indian economy since independence is the growth of the Small Scale Industrial Sector. They have been given high priority while planning the outlay under various sectors. Today, India operates the largest and oldest programmes for the development of Small Scale Industries in the country. The small industry programmes are based on the Industrial Policy Resolution of 1948, 1956 and also the successive Five Year Plans.

The Small Scale Sector included a variety of undertaking. The definition of small scale units varies from one country to another and from one period to another is the same according to the pattern of economic development and policy of the Government.

The Fiscal Commission constituted in 1950 defined a Small Scale Industry as one, which is operated mainly with hired labour of usually 10 to 50 people. In order to promote Small Scale Industries in India, the Central Government set up the Central Small Scale Industries Organisation and the Small Scale Industries Board in 1954-55. The Board in its meeting held in January, 1955, defined Small Scale Industry as a unit employing less than 50 employees, if using power, and of less than 100 employees without the use of power and with a capital asset not exceeding Rs 5 lakh on Plant and Machinery.

On the recommendation of the Abid Hussain Committee, the Government of India raised the ceiling for all Small Scale Industries including Ancillary Units and export oriented units to Rs 3 crore in 1997. The Government of India has reduced the
investment limit in Plant and Machinery from Rs 3 crore to Rs 1 crore, but the limit for investment in Tiny Units has been retained as Rs 25/- lakhs in 2000\textsuperscript{61}. The Industrial unit with an investment in Plant and Machinery less than Rs one crore falls under SSI category with some exemption like pharma, hand tools, hosiery and stationary items where the limit is Rs 5 crore in 2006\textsuperscript{62}.

Until now, the Government had defined Small Scale Industries and within the small scale, it provided a definition of Tiny Enterprises. However, from the small scale, there was direct shift to large scale units and no definition was provided for medium scale enterprises. With effect from October 2nd 2006, not only the three categories have been clearly defined (Micro or Tiny Enterprises would cover all enterprises within investment in Plant and Machinery of less than Rs 25 lakhs, for Small Enterprises with investment between Rs 25 lakhs and Rs 5 crores and for Medium Enterprises with an investment between Rs 5 crores and Rs 10 crores) but a comprehensive Act, called the Micro, Small and Medium Enterprises Development Act, 2006 would come into force. The Act is aimed at facilitating the growth of small enterprises so that they graduate to medium enterprises, thus improving their competitive strength.

An Ancillary Unit is one which sells not less than 50 per cent unit of its manufactured products to one or more industrial units\textsuperscript{63}. For small scale industries, the Planning Commission of India uses the term Village, Cottage and Household Industries. These include modern small scale industry, Cottage, Village Industry and Ancillary industry. Small scale industries can be classified into:

a. Manufacturing industries - ie, industries producing complete articles for direct consumption and also processing industries.

b. Feeder industries ie, specialising in certain types of products and Services. For example casting, welding and so on.

c. Servicing industries i.e., covering light repairs, shops necessary to maintain mechanical equipments.
d. Services; and

e. Mining or Quarrying

Features of Small Scale Industries

The following are the features that are particular to small scale industries. They are:

1. A Small Scale unit is generally a one-man show. Even if it is formed through an agreement of partnership or a company form, the activities are mainly carried out by one of the partner’s or directors.

2. In the case of small scale industries, the management is vested with the owner himself and have a direct contact with the business activities.

3. The gestation period of small scale industrial units is less than that of large scale units.

4. The scope of operation of small scale industrial undertaking is generally localised and catering to local or regional demands.

5. Small units use basically indigenous resources and technology, so that it can be located anywhere subject to the availability of resources like raw materials and labour both skilled and unskilled.

6. Small Scale industrial units are more susceptible to change, highly reactive and receptive to socio economic conditions compared to large scale industrial units.

So also, small industries are more flexible and adaptive to changed circumstances like introduction of new products, new methods of production, new materials, new forms of organisation and new markets.

Small industries seem to specialise in certain spheres of industrial production. There are many economic activities, which are not suited to large scale enterprises,
but the SSI units specialise in such activities. An efficient small industry sector can substantially enhance the efficiency of large factories by relieving them of the necessity of making certain operations, which for some reason or the other, the small units can produce at a lower cost.65

Technical ground is also favourable to scale small industries. Harrison stated that the cheapest and quickest way of spreading appropriate technology widely is to encourage small scale enterprises66.

According to the Economic Survey 2001-02, the small scale sector has played a very important role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of GDP, employment generation and exports. The performance of small scale sector therefore has a direct impact on the growth of the overall economy67.

MICRO SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT (MSMED ACT, 2006) AND MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs)

In allmost all countries of the world, small and medium units are clubbed together for policy purpose and are called Small and Medium Enterprises (SMEs). Hence, the Planning Commission study Group on Development of Small Enterprises, which submitted its final report in May 2001, has suggested that Tiny, Small and Medium Industrial establishments could be redefined in terms of investments limits of Rs 25 lakh, Rs 5 crores and Rs 10 crores respectively. Thus, a comprehensive Act, called Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into force the Act is aimed at facilitating the growth of Small Enterprises so that they graduate to Medium Enterprises, thus improving their competitive strength.

With the enactment of the MSMED Act, 2006, which came into force on 2nd October 2006, the system of SSI registration has been done away with and the new system of filing Entrepreneurs Memorandum (EM) has been introduced. Also the
earlier concept of “Industries” has been changed to “Enterprises” Classification of Enterprises under MSMED Act includes:

a) Enterprises engaged in the manufacture or production of goods is classified as:
   i. a Micro Enterprise where the investment in Plant and Machinery does not exceed Rs 25 lakhs.
   ii. a Small Enterprise, where the investment is Plant and Machinery is more than Rs 25 lakh but does not exceed Rs 5 crore, or
   iii. a Medium Enterprise, where the investment in Plant and Machinery is more than Rs 5 crores, but does not exceed Rs 10 crores.

b) Enterprises engaged in providing or rendering of Services is classified as:
   i. a Micro Enterprise, where the investment in equipment does not exceed Rs 10 lakhs.
   ii. a Small Enterprise where the investment is more than Rs 10 lakh but does not exceed Rs 2 crore;
   iii. a Medium Enterprise, where the investment in equipment is more Rs 2 crore but does not exceed Rs 5 crore.

Just like that of the importance of small scale industries in the Indian economy, the SSI’s in Kerala’s economy is also very significant.

**SMALL SCALE INDUSTRIAL SECTOR IN KERALA**

The development of any economy depends on the development of the secondary sector or industrial sector along with other sectors. So industrialisation is a sine qua non for economic development of a nation. Of all the industries, the small scale sector play a very important role in providing employment as well as overall rural and economic development.
At the time of the formation of Kerala State in 1956, there was a weak modern industrial base. Industry was mainly confined to the traditional cottage and processing industries and a very few modern industrial units which could have attracted and encouraged industrial expansion and diversification.

The industrial structure in Kerala is characterised by very few representation of large and medium industrial units and significant concentration of small scale industrial units and traditional industries. The traditional industries such as coir, cashew and handloom still play a vital role in the economy of Kerala, both in the factory sector and the small scale sector. They produce relatively low value added items and occupy a prime place particularly in terms of employment.

Kerala has been a densely populated and a literate State. The rise in elite population is increasing at an alarming rate as to the number of unemployed in the State. The Government in the State were fully conscious of this problem and considered promotion of small scale industry as a possible means for generating more employment opportunities in the State. The Industrial Policy, 1960 gave maximum trust to promotion of Small Scale Industries Sector. The observation made by Dr. K.N.Raj amply reinforces this fact. He prescribed the mushrooming of wide net work of small scale units around large units for tackling effectively the jobless in Kerala, and for raising income significantly among the middle and lower strata of the people.

Industrial Policy Statement of Kerala in 1983 envisaged an inter-linked industrial system of small scale, medium and large industries, so as to have an optimum use of state’s available natural and manpower resources to generate maximum income and employment. Consequent on the Policy Liberalisation in 1991, Small Scale Industries can be set up in any Sector, any where in Kerala.

Development of the small scale industrial sector will enable in eliminating the problem of rural poverty, increasing the standard of living of people and reducing the excessive pressure and dependence of population on land.
Dr. K.N. Raj prescribed the mushrooming of wide network of small scale units around large units for tackling effective the joblessness in Kerala and raising income significantly among the middle and lower strata of the people. Even though the state has achieved much progress in the field of education, health, service, infrastructure development, it has; not been able to solve the problem of unemployment to any significant extent. Such a situation small labour intensive industries have been favoured basically to solve the problem of unemployment.

SMALL SCALE INDUSTRIES IN KERALA

The total number of working Small Scale Industry/MSME units registered in Kerala as on 31st March 2009 is 204,381. Out of these, 7068 are promoted by Scheduled Castes (SC’s) 1433 by Scheduled Tribes (ST’s), 116 by women and 151,764 by others. The total investment is Rs. 6,56,849.48 lakhs, the total number of employment generated is 770,971 and value of goods and services produced is Rs 13,90,054.68 lakhs.

In order to encourage the small entrepreneur in the State, the Government is offering several incentives and concessions namely, granting subsidies, infrastructural facilities, supply of raw materials, marketing support, exemption from sale tax and so on.

The Government of Kerala is operating an incentive scheme for attracting women entrepreneurs to the industrial sector by giving building grant, machinery grant and managerial grant.

Special Schemes are also operated for the Scheduled Caste and Scheduled Tribe like interest free loans and soft loan to needy units. All the SSI units in the state are eligible to get Sales Tax exemption for 5 years subject to the condition that any given instant of time such Sales Tax exemption enjoyed shall not exceed the full cost of fixed assets. This facility is extended for six years in the case of units which are run by women entrepreneurs.
During the Second and Third Five Year Plan, a number of Industrial Estates were set up in the State. These Estates provide a wide spectrum of integrated facilities to SSI Units. The Government also launched a Mini Industrial Estate in each Panchayat in the State. The Government has also set up an Industrial Estate exclusively for SC/ST entrepreneurs. The Government acquired land, develop them into industrial areas and provide all infrastructural facilities to start industries.

District Industries Centres (DICs) have been opened by the Government in all Districts in the State for providing necessary license and clearance required for starting industrial units. Green Channel Counters have also been set up at the District Industries Centre to ensure that the applications are processed within 45 days.

The Small Industries Service Institute at Trissur is the field agency of Small Industries Development Organisation. The main office at Trissur and extension centres at Alappuzha, Shornur and Kozhikode provide technical and managerial Service to existing as well as prospective SSI units. The Kerala Industrial and Technical Consultancy Organisation offers a wide range of consultancy services including preparation of Project Reports, Appraisal Reports, Organising Entrepreneurship Development Programmes and so on.

The National Small Industries Corporation has opened a market development centre in Kochi to establish the consumer items and industrial products manufactured by the Small Scale Units in Kerala.

The Kerala State Industries Development Corporation was set up by the State Government to help SSI units by providing them equipment and machinery on hire purchase basis and scarce raw materials. The Kerala Financial Corporation is providing the term finance to the Small Scale Sector.

Traditional Industries play a vital role in the economy of Kerala. The traditional industries produce relatively low value added item, occupy an important place especially in terms of employment. The most important traditional industries
that dominate the traditional sector as well as the factory sector alike are coir, cashew and handloom Industries.

**KHADI AND VILLAGE INDUSTRIES IN KERALA**

Khadi and Village Industries Board is the statutory body vested with the responsibility of organising, developing and promoting Khadi and Village Industries in the State. It carries out its activities through Co-operative Societies, Registered Institutions and Departmental Units by availing financial assistance from State Government, Khadi Commission and Nationalised Banks.

During 2008-09, the Board received an amount of Rs. 5.50 crores under Plan and Rs. 20 crore under Non Plan of which Rs. 5 crore was towards special rebate on retail sale of Khadi. Khadi and Village Industries Commission (KVIC) has also released an amount of Rs.109.02 lakh as Grant to the Board for its various programmes.

The major scheme of the KVIC for employment generation is the Prime Minister Employment Generation Programme a new credit-linked subsidy programme by merging of Prime Ministers Rozgar Yogana (PMRY) and Rural Employment Generation Programme (REGP). Under this programme, the Board disbursed margin money grant of Rs.102.10 lakh to 45 projects and generated employment opportunities to the tune of Rs 314 persons during 2008-09.

The Board could produce goods worth Rs 12,624 lakh and sell goods for Rs 14,359.88 lakh by providing employment to 153,498 person during 2008-09.

The Board has 226 sales outlets for Khadi and Village Industries goods (Khadi Grama Soubhagya 44 numbers, Khadi Soubhagya 45 numbers, Grama Soubhagya 135 numbers and mobile sales van 2 numbers) and sold goods worth Rs 1866.50 lakh during 2008-09.

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SMALL INDUSTRIES IN KERALA UNDER FIVE YEAR PLANS

The Small Scale Industrial Sector plays a very significant role in the economy of Kerala. The significance of small scale industries in Kerala lies in the fact that they created employment on a large scale at relatively low cost, meet a substantial portion of the demand for consumer goods, facilitate mobilisation of resources of capital at various levels and brings about integration of the industries. According to 1991 census, the Small Enterprises in Kerala provided employment to 8.47 lakh people who form 83.1 per cent of the total industrial work force.

During the First Plan (1951-56), there was little organised activity under Village and Small Scale Industries in the State. No special targets were fixed for various activities under this sector. The total outlay towards this sector during First Five Year Plan was Rs. 1.12 crore (3.73 per cent of the total outlay).

During the Second Plan Period (1956-61) the number of schemes such as production-cum-service centres, training centres and commercial units was taken for the organisation of Small Scale Industries. A programme for the organisation of industrial co-operation was introduced during this period Kerala adopted Industrial Estate programme and were established one each in each district. The total outlay during this plan period was Rs. 5.82 crores. Of which Rs 1.78 crore (26 per cent of total outlay) was offered for the establishment and for strengthening of small scale industries in the State.

During the Third Plan period (1961-66) Kerala State Small Industries Corporation was established. Later the Kerala State Small Industries Corporation and the Kerala Employment Promotion Corporation (KEPC) were amalgamated and formed the Kerala State Small Industries Development and Employment Corporation Limited (SIDECO). Another important event was the implementation of Rural Industries Programme (1962-65) during the plan period. The total outlay to this sector during the Third Plan period was Rs. 8 crore. There were 18 industrial Estates by the end of the Third Plan.
The total outlay during the Annual Plan (1966-69) period was Rs. 5.12 crores and a substantial growth was noticed during this period.

During the Fourth Plan period (1969-74), stress was laid on setting up of development plots instead of the conventional type of industrial estates, since the latter incurred huge construction cost. The plan has an outlay of Rs 10-22 crore. During this period, the Department of industries took initiative to make arrangements with Kerala Financial Corporation and Commercial Banks to finance SSI units in Kerala. So also, the Central Government offered 10 to 15 percent Investment Subsidy for the development and balanced growth in industries especially in most backward districts.

The Fifth Five Year Plan (1974-79) was designed in such a way that a major chunk of the finance required will come from financial institutions. The State’s role during this period was mainly in providing infrastructural facilities to SSI units in Kerala. In consonance with the Industrial Policy Resolution of the Government of India (1977), the concept of District Industries Centre was launched in the State in 1978. The Plan outlay during this plan was Rs 16.04 crores. The Kerala State Industries Development and Employment Corporation was formed by merging Kerala State Small Industries Corporation and Kerala State Employment Promotion Corporations. During this time, Mini Industrial Estates were formed to develop industries in rural areas.

In between the Fifth and Sixth Plan period there was Annual Plan on 1979-80 with an outlay of Rs 8091 crores to SSI Sector in Kerala.

During the Sixth Five Year Plan period (1980-85), serious efforts were made to remove the various difficulties facing the Small Scale Sector. The Sixth Plan target was to set up about 1700 new units, against which the State could register 13325 new small scale Industrial units. The total outlay towards this sector was Rs. 49.8 crores. In order to foster the growth of ancillary units, nuclear Industrial complexes were started during the plan period.
In the Seventh Five Year Plan (1985-90) there were 32199 new units against the initial target of 20,000 units with a total investment of Rs.431 crores, employment potential of 1.93 lakh persons and production of goods and services valued at Rs.882.25 crores. By the end of 1989-90, there were 63,698 registered industrial units in Kerala. So also employment provided to the tune of 3.82 lakh persons, produced goods and service worth Rs.1,745 crores with a capital investment of Rs. 854 crores. The plan outlay during this period was Rs 120 crores.

The Seventh Five Year Plan was followed by Annual Plans (1990-92) in which the total outlay towards, this sector was Rs 28 crores. During this time 19,765 SSI units were registered. Of which 918 were owned by SC/ST entrepreneurs and 1,364 by women entrepreneurs.

During the Eighth Five Year Plan (1992-97) the total number of Small Scale Industrial Units in the state were 1,43,123. The total outlay during this plan was Rs. 150 crores (both SSI and Village Industries). The total SSI units registered during this plan period was 76,104, employment 321,604 persons, value of production of Rs.3,745.11 crores with an investment of Rs.1,058.83 crores. Small Industries Development Corporation’s raw materials division procured and disbursed raw materials to registered SSI units in the State during the plan period.

The outlay for SSI and Village Industries in the Ninth Five Year Plan period (1997-2002) was Rs.26.4 crores. The number of units registered during this plan period was 97,476, the value of production Rs.5884.27 crores and employment provided 333,878 persons and the value of investment of Rs.1,803.74 crores.

During the Tenth Plan Period (2002-2007) the total outlay towards this sector was Rs. 27.3 crores.

During the Eleventh Plan period (2007-2012) the total outlay to SSI Sector was Rs. 10167 crores.
The outlay towards SSI Sector in the Five Year Plan periods are shown in Table 2.1

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Plan</th>
<th>Outlay (In Rs Crores)</th>
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<tbody>
<tr>
<td>1</td>
<td>First Five Year Plan (1951-56)</td>
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<tr>
<td>2</td>
<td>Second Five Year Plan (1956-61)</td>
<td>5.82</td>
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<td>3</td>
<td>Third Five Year Plan (1961-66)</td>
<td>8.00</td>
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<tr>
<td>4</td>
<td>Annual Plans. (1966-69)</td>
<td>5.12</td>
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<td>5</td>
<td>Fourth Five Year Plan (1969-74)</td>
<td>10.22</td>
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<td>6</td>
<td>Fifth Five Year Plan (1974-79)</td>
<td>16.04</td>
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<tr>
<td>7</td>
<td>Annual Plan (1979-80)</td>
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<td>Eight Five Year Plan (1992-97)</td>
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<td>12</td>
<td>Ninth Five year Plan (1997-2002)</td>
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<td>Tenth Five Year Plan (2002-2007)</td>
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<td>14</td>
<td>Eleventh Five Year Plan (2007-2012)</td>
<td>10167.00</td>
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MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

With the enactment of the MSMED Act, 2006, which came into force on the 2nd October 2006, the earlier concept of Industries has been changed to ‘Enterprises’.

As per the provision of the said Act where the investment in Plant and Machinery does not exceed Rs.25 lakh are categorised as Micro Enterprises engaged in Manufacture (Rs.10 lakhs in the case of Service), where investment in Plant and Machinery exceed Rs.25 lakhs but does not exceed Rs. 5 crores as Small Enterprises engaged in Manufacture (Exceed Rs. 10 lakh but does not exceed Rs. 2 crores in the case of Service).

Where the investment in Plant and Machinery exceeds Rs 5 crores but does not exceed Rs.10 crore as Medium Enterprise engaged in Manufacture (exceed Rs. 2 crores but does not exceed Rs. 5 crores in the case of Service).

MSME Sector in Kerala plays a pivotal role in terms of economic growth and employment generation. This Sector contributes a lot towards domestic needs and export marketing by producing varieties of products ranging from traditional to high tech. Though the volume of production of MSME sector is very large the quality of products, diversification of products, energy consumption, environmental effects have always been a concern.

The Challenges of the MSME Sector has increased manifold as the global down turn in the business cycle threatened domestic growth and employment.

The total number of working small scale industry/ MSME units registered in Kerala as on 31st March 2009 was 204,381. The total number of employment generated was 770,971. The total value of goods and services produced during 2009 was Rs.13,90,054.68 lakhs and the total investment was Rs.6,56,849.48 lakhs. District wise analysis revealed that Ernakulam occupies highest position in terms of value goods produced, investment made and employment provided and Wayanad has the lowest position. During the year (30-9-2009) 3873 new enterprises have filed
memorandum with an investment of Rs.25,490.82 lakh providing employment to 21,980 persons.

During 2008-09, MSME Sector in Kerala recorded a declining trend in terms of the number of new enterprises that filed Memorandum, employment, growth, value of goods produced and investment compared to the previous years. The number of new enterprises filed memorandum during 2008-09 was 8421 as against 11,186 in 2007-08. The declining trend was also reflected in employment, production and investment in the MSME Sector. During the year 2008-09, 8421 new enterprises have filed memorandum, under MSME Part II with an investment of Rs.56,594.83 lakhs providing employment to 48,111 persons. Out of the new enterprises filed memorandum, 234 are promoted by SCs, 19 by STs 2811 by women and 5357 by others. The value of goods and services produced during the period was Rs. 1,32,155.38 lakhs. It is clear from the statistics that there is a declining trend in number of units registered and employment provided due to the existence of various problems in the MSME Sector.

**PROBLEMS OF MICRO SMALL AND MEDIUM ENTERPRISES SECTOR**

The development of any economy depends mainly on the industrial sector in general and Small Scale/ MSME Sector in particular. India is not an exception to it. Its back borne of the economy of India is vested with the development of SSI Sector/ MSME Sector. Now, this sector has confronted with several problems both Internal and External. These problems may also differ from industry to industry, which generally occurred due to faulty management practices, marketing strategy, technological, financial, government policy level, world level (globalisation) and competition from other units. These problems are confined to:

a. Production;

b. Marketing

c. Management;
d. Finance;

e. Technology;

f. Change in Economic policy; and

g. Others

1. Problems in Connection With Production

The SSI/MSME Sector face a lot of problems in connection with the smooth flow of production. They are raw material problem (scarcity), under utilisation of capacity, high cost of production, lack of availability of labour and electricity problems.

2. Problems in Connection With Marketing

The most important problem the SSI/MSME Sector faces is the problem in marketing their products. Now it is very high on account of globalisation. So new strategies should be developed for it but it is lacking.

3. Problems in Connection With Management

The entrepreneur of the SSI/MSME Sector is not proficient in the field of Management. In the present day management of SSI/MSME or large scale industrial sectors, the managers must have managerial talents especially they must know the strategic management.

4. Problems in Connection With Finance

The most important problem that the small entrepreneurs face is lack of sufficiency of funds for production operations. They require working capital whenever there is a problem in marketing their products at a stretch. But the banks or other financial institutions do not provide timely working capital finance. They also find it difficult to get adequate fixed capital for expansion, diversification or new projects from banks or other financing agencies.
5. **Problem in Connection With Technology**

In the SSI/MSME Sector, there is traditional technology in use. These industries are located in rural areas, and are using outmoded technology. The technology available (modern) is not in their reach because of high investment and lack of technological know how. All these lead to low quality products at high cost.

6. **Problems in Connection With Change in Economic Policy**

A drastic change has taken place in the SSI / MSME Sector due to Economic liberalisation and globalisation since 1991. The effect of which is high quality products at less price. This is made possible to those industries having that much ability to introduce new technology and adequacy of funds. But the SSI/ MSME Sector now faces the problem of competing with those at the global standards.

7. **Other Problems**

These are problems which are not stated in any of the above six heads. These include lack of organised marketing channels, lack of proper assessment of market conditions, and so on.

Those industries which are having all these problems are not able to solve it scientifically and systematically which will lead to sickness and ultimately the closure of the enterprise whether it is Small, Medium or Large.

Locking up of the country’s limited financial resources, wastage of capital assets, loss of production and increase in unemployment have been the major repercussions of industrial sickness, both in Large and Small Scale. Therefore, there has been a growing concern for a careful handling of the Small Scale Industrial /MSME sector in Kerala in the wake of Globalisation
IMPACT OF GLOBALISATION ON MSME/SMALL SCALE SECTOR

Globalisation means internalization of marketing operations. In the Indian context it is “linking the Indian economy organically with world economy”\textsuperscript{74}. It may be defined as “the global dimension of the evolving world economy”\textsuperscript{75}.

Globalisation has made it imperative for the Small Scale industries to be competitive in order to face challenges set by large multi national corporations. It has to adopt cutting edge technologies and international managerial practices in order to survive in the market. Small scale sector needs to be vitalized for competitiveness and sustainable growth under new world trade rules and faster technological changes\textsuperscript{76}.

GLOBALISATION AND SSI SECTOR

Raju S.V\textsuperscript{77} has pointed out that the changes that have somehow got permeated into Indian economy under the banner of globalisation have a profound and mostly deleterious impact on the SSI Sector. Many believe that the recent changes under globalisation programme were owing to deliberate, well thought out and entirely indigenous devised policy measures. However, the truth is that the causes which triggered these economy modifying measures were internal and chronic, but the responses were prescribed or at least largely encouraged by the external agencies who dished out their standard menu of reforms which suited their own policy predilections rather than out long run developmental needs.

The opening up of the economy under the globalisation regime was demanded by the rescuers of our economy as a price for providing palliative relief from the mounting external debt. The so called reforms were a result of the failure of our attempts to manage the external debt crises in 1991. The necessity was made into virtue.

Obviously, the policy framework instead of strengthening the Economic structure will produce bizarre consequences like triggering uncontrolled chain
reaction in which the weak and the defenseless sector like the SSI is most likely to suffer.

It would have been more pertinent to differentiate between the aims of the short run crises management from the goals and priorities of the long term developmental needs and processes. Instead, the governmental decision makers indulged in play-acting and pretending that the consequent changes brought into resolve the immediate crisis were automatically capable of satisfying long term developmental needs of the country.

This misdirection of the policy would certainly result in misdirection of resources and undesirable lop sided growth. The government should have honestly admitted these differences but this distortion was accorded the status of great discovery and treated as panacea for all economic problems and in this the government was certainly encouraged by the IMF and the World Bank.

The critics, instead of recognizing that developmental process and planning, including that of SSI sector requires that short run objectives and strategies be clearly identified and separated from those of long run, have raised the slogans of “swadeshi” and “national sovereignty”.

One of the consequences of globalisation will be opening the flood gates for better quality goods into the country. The small scale industrial units, already weak in marketing function even in the domestic market, are incapable of withstanding the onslaught of these foreign goods. It is a distant dream that the SSI units will be able to expand their foreign markets as reciprocal opportunity, available to them by our economy, gets integrated to the world economy.

The question of superior marketing, which includes many more functions than mere selling, would have required a long and hard preparation for which no warming and time was provided. Sudden acquisition of the marketing skills, the resources required and governmental support required are not possible in the very short run and hence, it is too much to expect that the SSI units will perform efficient
marketing functions even in domestic market let alone in the tough and demanding foreign markets

The technology transfer to small industrial units is another difficult area for foreign firm in that for the latter to inject its technological advancement to India units requires adequate motivation of financial gain and capacity to monitor.

On the other hand, there hardly seems to be any institutional mechanism available to the SSI units to identify and reach the foreign sources of advanced technology. IT is also doubtful whether the foreign sources of technology will transfer their latest technology to the India Small scale sector.

Globalisation has all of a sudden created a situation in which foreign firms may benefit by entering into the India market, while a call to SSI units to come up to global standards of technology, productivity and marketing to compete with the rest of the world is not going to bear fruit. The SSI units, with a few exception, cannot be expected to enter into full fledged race against well trained and experienced competitors while they are still in the crawling stage.

DOMESTIC LIBERALISATION AND SSI

The government policy interventions in the form of enhancing of the limit of investment, and permitting the large units to invest up to 24 per cent of the capital of the SSI units is also fraught with deleterious consequences.

Enhancing the investment level can bring in many medium scale units within the purview of small scale sector. This may cause an unhealthy scramble for the limited facilities offered by the government including provision of raw material on concessional rates, allotment of sheds, and market and technical support offered to the SSI units. This may result in too many chasing, too few facilities and concessions available and in the race, some small units may fall by the way side and become sick.

The de-reservation of fifteen items which were earlier reserved for the exclusive production of SSI units will result in pitting small units against the large
unit in the areas of production and marketing. In both these areas, the SSI units are weak. In most cases, SSI units have obsolete production units and use outmoded methods.

The replacement of machinery will require huge investment which the SSI units are incapable of providing and government is not able to spare. The result is that the SSI units have higher cost of production, low productivity and poorer quality of goods.

The items which have now been de-reserved include rice milling, dal-milling, biscuits, poultry feed etc which are traditionally produced by SSI units. Allowing large scale industrial units to expose the weak SSI lead units to the onslaught of the powerful large units. This may cause extinction of some of the SSI units. Hence, a total review of the whole policy regime which has been enunciated under globalisation and liberalization is called for.

The budget for 2001-02 has expressed its commitment to the development of small scale industries in the country. Since the introduction of the New Economic Policy of Liberalisation in the mid 1991, the SSI sector has had to face their most hard times. The inward oriented trade strategy followed earlier gave enough protection to SSI’s. The budget speech of the Finance Minister declares it to be the official policy to support SSIs because of the large number of changes taking place at the National and International level and also because of the growing domestic and international competition.

The SSI entrepreneurs need to keep in mind that India is committed to the WTO conditionalities. It is doing away with all kinds of import restrictions. In the present multilateral trading arrangements, the Union Government, which in earlier days use to come to the rescue during the exigencies of the SSIs finds now to be helpless to continue and extend such policies of helping them. Therefore, the SSIs by making use of the existing institutional facilities, incentives, concessions, should seriously look at the issues like quality, cost, appropriate technology and marketing infrastructure for their survival and growth.
As pointed out by Mathew P.M., in the globalised scenario, the country needs a strong SME policy which is closely linked to its international commitments. At the strategy level, there need to be mechanisms by which the demography of SME sector itself becomes a matter of public scrutiny, and the government itself should become accountable to the parliament, in terms of a commitment to develop SMEs on scientific lines. If the country has clarity on these lines, globalisation is not likely to pose a very serious threat to the SME sector as today.

While in the Gandhian schema small enterprises were visualised as the cornerstone of integrated development of thousands of villages in the country. The Mahalanobis Model, which backed the Nehruvian thinking on the subject, provided a sound theoretical under-planning of industrial development in the country, with small industry as a major instrument. The liberalization policy, announced in 1991, by the then industries minister P. J. Kurian, sought to make small industry, a “vibrant and dynamic instrument” of industrial change in the country. The malaise of the so-called “Inspector Raj” was sought to be brought down, and focus was placed on forward looking policies relating to innovation and growth, rather than on continued protection. The Abid Hussain Committee Report (1996), provided a blueprint of what was going to happen. The Vijayaraghavan Committee, a committee of bureaucrats which followed, put into practice these perspectives.

The process of globalisation is intensifying market competition by allowing imports and multinational corporations relatively easily into India. This in turn creates pressures on industrial units to pay more attention to quality, price and delivery considerations rather than to profitability. All these require substantial improvements in technology, ie, transformation (mechanization), organisation and information.

There have been numerous organisational changes. The organisation of a production process involves plant layout, materials management, work allocation, production schedules, quality management, inventory control and so on. Some recent developments in the area of organisation include total quality management, just in
time, new standards for scrap; management, machine reliability, inventory control and so on. Also an increasing consumer preference for variety has changed the ground rules of competition from the mass production of standardized products to flexible specialization of manufacturing customised products and thus altered the ways of organising the production system. For instance, the plant layout is being changed from long narrow assembly lines comprising specialised machines to a cluster of all purposes machines arranged like cells in which different families of products are manufactured. Accordingly, changes are required in production schedules and work organisation such as multi skilling and multi tasking.

Government should encourage industry associations and various private organisations to play a role in the technological upliftment of small scale units rather than itself trying to do everything ineffectively as it was doing so far. All the external support including policy assistance has a meaning only when individual units are motivated. Industry and government agencies can play a significant role in educating small units about the changes in the business environment and the necessity of going in for technological upgradation. To play a meaningful role, it is essential for both the industry associations and the government agencies to change their attitude and to instill trust and confidence in the small units.

Bala Subramanya pointed out that a technologically vibrant, internationally competitive small industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is essential to take care of the sector to enable it to take care of the economy. Small industries in India have been confronted with an increasingly competitive environment due to:

a. liberalization of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries

b. the formation of the World Trade Organisation in 1995, forcing its member countries to drastically scale down quantitative and non quantitative restrictions on imports, and
c. domestic economic reforms

The cumulative impact of all these developments is remarkable transformation of the economic environment in which small industry operates, implying that there is no option but to ‘compete’ or ‘perish’. India’s efforts at globalisation will not succeed unless it allocates a larger budget for intensive research and development of indigenous technology.

IMPACT OF WTO ON SSI IN INDIA

The coming into force of several agreements is likely to have far reaching implications for the SME sector in India, specifically with regard to their competitive ability and integration with the global markets. Most of the problems arise due to the unorganized nature, lack of data and information, use of low technology and poor infrastructure in the country. WTO will affect all types of SSI units whether catering for domestic market or international market. The following are the major issues as far as our country is concerned:

a. Phasing out of Quantitative Restrictions

India is maintaining Quantitative Restrictions on import of certain agricultural, textile and other industrial products on account of balance of payment problems under Article XVIII-B of GATT. In effect many of the SMEs, especially those in the consumer goods sector, will find it difficult to survive as more imported products will find easy access to the Indian market.

b. Subsidy

Permissible actionable subsidies are those which are permissible till they do not hurt the interests of other members, ie, a subsidy specific to an enterprise, group enterprise, industrial sector or designated geographical location is permissible.
c. Industrial Tariffs

Indian SSIs have been provided some protection because they are hindered by some bottlenecks and have no access to economies of scales. As Quantitative Restrictions have to be removed, the protection level by way of tariff is also likely to come down. This brings another challenge for the SMEs, with their high cost and low support facilities.

d. Market Access

It is important to note that India cannot gain a large share in the global market if it tries to keep its tariffs high.

e. Sanitary and Phyto-sanitary Measures

This GATT agreement would mainly affect agro based and dairy products. The stringent environment conditions in developed countries have adverse consequences for India’s export performance.

GLOBALISATION AND SSIs IN KERALA

In Kerala context, it is crucial to examine the present industrial policies that are being followed by the government of Kerala, land the Local governments, and the implications of that in a context of WTO guided stipulations. Any potential impact of globalisation would, therefore, depend upon in what way the government and the entrepreneurial community would adjust or reorient themselves, the response to an externally determined development environment. Competition between the SSIs and other sector is not only acute but also unequal. It is nothing but natural that MNCs produce a large volume of goods especially to meet the world demand. The worst sufferers are the industries in the small scale sector which will find it hard to survive without any protection86.
The establishment of WTO regime requires the member nations to adhere to WTO requirements and intellectual property rights, in stages by the year 2005. By such requirements, import tariff should be brought down at the following levels:

1. tariff of 40 per cent and above brought down to 25 per cent; and

2. tariff below 25 per cent limited to 25 per cent

These requirements further demand that member countries should extend Most Favoured Nation treatment to each other, and should extend the same treatment to imported goods from member countries as to their own domestic products.

The Intellectual Property Rights (IPR) stipulates that each country should honour the IPR of other countries. Besides, countries who have innovated a product on their own through R and D, will have the exclusive right to market this product in the member countries for five years and the overall protection for the patented product is for 20 years.

The full fledged WTO regime implies a full opening up of national economies wherein economies and local industries have to function according to the principles of comparative advantage, governed by the rules of the game set by the WTO stipulations.

The competitiveness of a small industrial unit in India, hereafter, is going to be decided by two factors:

1. the cost as well as market advantages of other units in the industry within India; and

2. the cost as well as market advantages of units in other countries to enter the Indian market

Based on this criteria, Indian SSIs can be divided into three categories:

a. the relatively competitive ones because of local advantages
b. the relatively uncompetitive ones having no local advantages; and

c. units having a universal competitive edge.

The WTO regime, in essence, is grand policy of market integration at the international level. What is possible is to analyse and foresee the emerging trend, and to equip local industries to grab market opportunities as soon as they emerge, both internally and at the international level. Competition, internally as well as internationally, whether one agrees with it or not is going to be the rule of the game.

The removal of Quantitative Restrictions would take away the benefits of protected market for SSI sector due to existing policy of reservation of items for SSI sector, and would subject them to an increased competition from imports. The protection to SSI sector against excessive imports by imposing anti dumping and safeguard duties is likely to be hampered by the difficulties in meeting procedural requirements of support from majority of industry for initiating such cases in view of the fragmented nature of SSI sector enterprises, multiplicity of associations, and their lack of expertise and knowledge relating to these aspects.

The effect of increased competition from imports on the health of several large India companies will be negative. This may adversely affect those small enterprises that have traditionally been dependent on large enterprises for marketing their products. SSI sector would need to concentrate on price sensitive markets in semi urban and rural areas where the competition is expected to be mild. To be internationally competitive, domestic industry has to develop the home market initially. It would be necessary for SSI sector to update their technological, operational and managerial efficiencies to successfully meet these challenges. The information technology revolution has made the aspect of scale irrelevant for competitive advantage and support will have to be provided to SSI sector to exploit emerging opportunities wherever possible, to extend their marketing and technical support infrastructure.
Our exports are increasingly being subjected to anti-dumping duties in several markets. Small scale enterprises do not have resources to defend their interest in overseas markets and would need adequate government support in this regard. Agro based industries form a major sub category of SSIs in India. Any changes in the commodity markets obviously would have a direct on agro processing industry. Though India is a major exporter of several agricultural commodities, in the new environment, it is not likely to have a competitive advantage in commodities like natural rubber, coconut (copra) and several oil seeds. An enhanced import of these commodities would imply a natural death to several agro processing industries, because a crash in the commodity markets would invariably shatter the profitability position of these industries.

The WTO agreement on sanitary and phytosanitary measures requires adoption of international standards in a non discriminatory manner and imposition of restrictions on imports only on the basis of firm “scientific evidence” of threat to human, animal or plant life and health. SSI sector would need adequate technical and financial support to meet these standards. It requires to know the trend in the registered units production, employment, investment, export and sales of SSIs/MSME sector. It is of paramount importance in the wake of globalisation.

So the present study proceeds with the analysis of the performance of MSME Sector in Kerala in the pre and post globalisation, and it is presented in Chapter III and IV.
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