Chapter 1

SMALL SCALE INDUSTRIES DEVELOPMENT IN INDIA
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IN INDIA

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CHAPTER – I
SMALL SCALE INDUSTRIES DEVELOPMENT IN INDIA

1.1 INTRODUCTION
The micro small and medium enterprises (MSMEs) have been recognised as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises.¹

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the global economy and particularly in our country where MSMEs constitute nearly 94% of the industrial enterprises in the economy. The sector contributes 36% of the total value of exports of the country and employs over 80 million people. The contribution of the MSME sector to the output of the country is 40% and to the GDP is over 8%. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.²

In India too, the MSMEs play a vital role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its utility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

In India, the earlier development planning, keeping its stress on the development of large scale industry, failed to solve the problems like balanced regional development, gainful employment to millions of the unemployed and equitable distribution of benefits of industrialization. With industrial development mostly confined to a few metropolitan cities and big towns of the benefits industrialization have hardly percolated, it has been realized that the pattern of industrialization in western countries is not applicable in this country due to the fact that India is an over-populated country with wide regional imbalances and scarcity of capital. However, the welfare objectives enshrined in the constitution imply that in the process of development, the common man’s welfare is to be given top priority. The guiding principle of the socialistic pattern of society also known that the small scale industries should be recognized as the means to achieve equitable growth.
Industrialization is a process in which the product changes from time to time after strategic analysis, thus contributing economic gains and industrial progress. The resultant effect is to raise the per capita income and standard of living of the people in any country. A higher standard of living implies that more number of industrial goods flow into the consumption basket of the people. The net economic impact of industrialization must travel down ultimately to maximum number people. For any country its industrial advancement is the main factor for achieving honorable place in the world map. Absence of industries makes a nation dependent on other countries reduces its dignity. Without industrialization no country can have political or economic freedom which can improve the standard of living of its people rapidly.

Small business is the Open University for entrepreneurs to translate their vision innovative, ideas into a reality and stand out distinctively in society. In the process, they not only produce wealth and services, but also create employment opportunities for others. Small business is thus the seed of the entrepreneur's dreams.\textsuperscript{3}

Today entrepreneurs remain the backbone of society. Micro, small and medium enterprises play a strategic role in the progress of the country. These industries by and large represent a stage in economic transition from traditional to modern technology. The transitional nature of this process is reflected in the diversity of these industries. Micro, small and medium enterprises use simple skills and machinery while many others use modern and sophisticated technology. The challenge of economic growth is to accelerate the productivity of agriculture and industry by improving their techniques of production. As far as industries are concerned, this will involve adoption of a progressively superior technology, particularly in semi-urban and rural areas.

1.2 MEANING AND DEFINITIONS OF SMALL SCALE INDUSTRY

Small-scale industry comprises of a variety of undertakings. The definition of small-scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government Policy and administrative set up of the particular country. As a result, there are nearly 50 different definitions of SSIs found and used in 75 countries. All these definitions either relate to capital or employment or both or any other criteria. Here the evolution of the legal concept of small-scale industry in India is traced as follow.\textsuperscript{3} There can be two bases for defining small business and these are:
1.2. I. Scale of Business: The size or scale of business can be measured in various ways like:

(i) Investment on plant and machinery  
(ii) Employment generation.  
(iii) Investment and Employment.  
(iv) Volume and/or value of production.  
(v) Volume and/or value of sales.

II. Qualitative Aspects: These can be:-

(i) Ownership of small business is in the hands of an individual or a few individuals.  
(ii) Management and control of small-scale firm is with the owner.  
(iii) Technology adopted in small-scale unit is normally labour intensive.  
(iv) Small-scale business is normally carried on in a limited or local area.

Before Second World War a small concern was defined as a unit having capital invested up to Rs. 30,000 and those concerns having capital in excess of that amount were classified as large-scale units.

The definition of small-scale enterprise has undergone changes over years with the ceiling raised to take into account the rising cost of machinery as well as falling value of rupee.

Various definitions of small-scale unit are as under:

According to Fiscal Commission, 1950 “A unit operating mainly with hired labour usually 10 to 50 hands.”

According to Small Scale Industries Board, 1955 “A unit employing less than 50 persons if using power and less than 100 persons without the use of power and with a capital investment not exceeding Rs. 5 lakhs.”

According to Ministry of Commerce and Industry, 1960 “An industrial unit with a capital investment of not more than Rs. 5 lakhs irrespective of the number of persons employed.”

According to Ministry of Commerce and Industry, 1966 “An undertaking having an investment in plant and machinery of not more than Rs. 20 lakhs and 25 lakhs in case of ancillary units.”

According to Government of India, 1985 “An undertaking having an investment in plant and machinery of not more than Rs. 35 lakhs and not more than
Rs. 45 lakhs in case of ancillary units.”

**According to Government of India, 1991** “An undertaking having an investment in plant and machinery of not more than Rs. 60 lakhs and not more than 75 lakhs in case of ancillary units.”

**According to Government of India, 1997** “An undertaking having an investment in plant and machinery of not more than Rs. 3 crores.”

**According to Government of India, 2000** “An undertaking having an investment in plant and machinery of not more than Rs. 1 crores.”

1.2.2 Micro, Small and Medium Enterprise ACT 2006:

According to micro, small and medium enterprises act the enterprises are broadly classified in terms of activity such as enterprises engaged in the manufacturing /production and enterprises engaged in services while the manufacturing enterprises were defined in terms of investments in plant and machinery. The service enterprises are defined in terms of investment in equipments. The act has also defined medium scale enterprises for the first time. The enterprises are further classified into micro, small and medium categories.6

The Investment limits of these enterprises are as follows:

### Table 1.1

**SSI Investment Limit**

<table>
<thead>
<tr>
<th>MANUFACTURING ENTERPRISES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprises</td>
<td>Investment up to Rs.25 lakhs</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>Investment above Rs.25 lakhs and up to Rs.5 crore</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Investment above Rs.5 crore and up to Rs.10 crore</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SERVICE ENTERPRISES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Investment up to Rs.10 lakhs</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>Investment above Rs.10 lakhs and up to Rs.2 crore</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Investment above Rs.2 crore and up to Rs.5 crore</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI

Investment limits were enhanced with the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act 2006. Government of India has
adopted a policy best suited for the micro, small enterprises with the objective of to achieve 15 per cent annual growth rate, to increase employment generation and to create congenial and sound environment. It helps the small scale sector to acquire new technology and skills, improve the export performance, promote linkage between the large and small scale sector and also to promote an appropriate institutional mechanism to revive sick industries.

1.3 FEATURES OF SMALL SCALE INDUSTRIES

The following are the feature of small scale industries:

1. **Ownership:** Ownership of small-scale unit is with one individual in sole proprietorship or it can be with a few individuals in partnership.

2. **Management and Control:** A small scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is actively involved in all the decisions concerning business.

3. **Gestation Period:** Gestation period is that period after which teething problems are over and return on investment starts.

Gestation period of small-scale unit is less as compared to large-scale unit.

4. **Area of Operation:** The area of operation of small scale unit is generally localised catering to the local or regional demand. The overall resources at the disposal of small-scale units are limited and as a result of this, it is forced to confine its activities to the local level.

5. **Technology:** Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore these units are more suited for economies where capital is scarce and there is abundant supply of labour.

6. **Resources:** Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

7. **Dispersal of Units:** Small-scale units use local resources and can be dispersed over a wide territory. The development of small-scale units in rural and backward areas promotes more balanced regional development and can prevent the flow of job seekers from rural areas to cities.

8. **Flexibility:** Small-scale units as compared to large-scale units are more change
adoptable and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

1.4 OBJECTIVES OF SMALL SCALE INDUSTRIES

The small scale sector can stimulate economic activity and is entrusted with the responsibility of realising the following objectives:-

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

The total approach of the new policy was towards creating an atmosphere conductive to the development of entrepreneurship and technological progress.

1.5 SMALL BUSINESSES AS A SEED BED OF ENTERPRENEURSHIP

Seedbed refers to the preparing of soil for the sowing of seeds so that we may have good crop. Small business is regarded as a seedbed for entrepreneurship as it provides conducive conditions for the emergence and growth of entrepreneurs. Small-scale units employ available technology and can be started with less investment. They are going to use local resources and cater mainly to local demand. These units normally revolve round one individual who is called upon to perform various roles. He is the owner, manager and risk bearer and hence can be called an entrepreneur. The emergence, growth and success of entrepreneurs are linked with the growth of small business. The Government of India too has given small-scale industry an important place in the framework of economic planning for economic and ideological reasons. Thus setting up of more small scale units will create more opportunities for entrepreneurial development and more and more educated unemployed will come
forward for setting up their own enterprises. It will show in an era wherein enterprising persons will assume entrepreneurial career in future. Small enterprises are called seedbed of entrepreneurship due to the following reasons:

1. Small-scale enterprises can be started with lesser investment, which can be contributed by the promoter or arranged from friends and relatives.
2. Small-scale units carry on business on a small scale and as such the element of risk is less.
3. Small-scale units are generally based on local resources and as such there is no problem regarding their availability.
4. Small-scale entrepreneur adopts labour intensive technology. Thus he generates employment for himself as well as for others.
5. Small-scale units can be located anywhere and thus help in the development of backward areas of the country.
6. Small-scale units generally cater to local demand and necessary modifications can be made in the products keeping in mind the changing demand of people.
7. Small-scale units provide ample opportunities for creativity and experimentation.
8. Small-scale units have shorter gestation period and hence waiting period for getting return on investment is less.
9. These units are relatively more environmental friendly.
10. Small-scale units help in building achievement motivation amongst entrepreneurs.
11. Small-scale units are viewed favorably by the government and society because these help in equitable distribution of income and wealth.

Keeping in mind the above potentials of small scale industry as a developer of entrepreneurial talent, the government of India has facilitated this sector by providing it with various concessions and incentives.

1.6 RELATIONSHIP BETWEEN SMALL AND LARGE INDUSTRIES

After going through the distinct characteristics of small-scale industries, one should not assume that the both small and large, are antithetic to each other. In other words, the both cannot sustain in an economy. But, fact is that one is complementary to each other. The relationship between the small and the large industrial units can be seen in various respects, which are stated below:

1. Supplementary: Small industry can fill in the gaps between large production and standard outputs caused by large-scale industries. This is due to this
supplementary role of small industries that a small tricycle factory sustained and flourished alongside a large cycle factory in Large city.

2. **Complementary**: Apart from supplementary relationship, small industry has been a complementary to its large counterparts. In the real world, many small units produce intermediate products for large units. Such subcontracting relationship between the small and large was particularly marked in the economic history of today’s industrially developed Japan. As industrialization proceeds, small firms seem naturally to shift from activities that compete with large firms to complementary ones. Similarly, China too continues to rely on Mao’s aphorism of “walking on two legs” – one being small and the other large. Under complementary relationship, small units function under the guardianship of the large units and enjoy the advantage of protected market for their products then, the advantage of such small units remains beyond doubt.

3. **Competitive**: Though Small-scale industry cannot compete with large industry in certain circumstances and in selected products, but they have comparative advantage in some products. Example of such industries are bricks and tiles, fresh baked goods and perishable edibles, preserved fruits, goods requiring small engineering skill, items demanding craftsmanship and artistry.

4. **Servicing**: Small industries do also install servicing and repairing shops for the products of large units. In the case of India, such small servicing units can be seen producing rapidly in respect of large industries like refrigerators, radio and television sets, watches and clocks, cycles and motor vehicles.

5. **Initiative**: Attracted by the high profits of large units, small units can also take initiative to produce the particular product. If succeeds, the small unit grows to large over a period of time.

1.7 **RATIONALE OF SMALL SCALE INDUSTRIES**

Following are the main rationales to support small-scale industries in India:

1. **The Factor Price Argument**: It is commonly argued that for various institutional reasons, labour used in large enterprise is priced well above the levels at which it is used in small-scale industries. The SSI sector, which uses more labour and less capital per unit of output, will have relatively lower costs as their training and development costs are quite low. Besides, large enterprises are ready to pay more as they have to attract more stable migrants from rural areas. Cost of developing
commitments among them to firm specific is also quite high. But small units make
greater use of the unstable labour with high turnover because in their case the
stability – efficiency relationship for the work force is much weaker. Their labour
cost is much less expensive as they generally use less expensive often second hand
machines which need less training to use and whose cost of damage from misuse is
less. The high labour productivity in large firms enables the firm specific labour to
claim a share of profit. The motivation of an exclusive labour force can only be
sustained if management is sympathetic to profit sharing ideas. Unionisation of
labour force in large enterprises is another important variable. But these types of
problems are not available in small-scale enterprises.

2. Employment Argument: In view of India’s scarce capital resources and abundant
labour, the most important argument advanced in favour of the SSIs is that they
have a potential to create immediate large-scale employment opportunities. The
increasing emphasis on SSIs in developing countries like India stems largely from
the widespread concern over unemployment hovering in the country. There are
many research findings available, which well establish that small-scale units are
more labour intensive, than large units. In other words, small units use more of
labour per unit of output than investment. P.C. Mahalanobis also supports the view
that small industries are fairly labour intensive. He mentions that with any given
investment, employment possibilities would be ten or fifteen or even twenty times
greater in comparison with corresponding factory system.7

3. Equality Argument. One of the main arguments put forward in favour of the
small-scale industries is that they ensure a more equitable distribution of national
income and wealth. This is accomplished because of the two major considerations:
(i) compared to the ownership of large-scale units, the ownership pattern in SSI is
more widespread (ii) their more labour-intensive nature, on the one hand, and their
decentralisation and dispersal to rural and backward areas, on the other, provide
more employment opportunities to the unemployed. This results in more equitable
distribution of produce of the small-scale units. It is also held that as most of the
small enterprises are proprietary or partnership concerns, the relations between the
workers and the employees are more harmonious in small enterprises than in the
large enterprises.
4. **Decentralization Argument**: Decentralisation argument impresses the necessity of regional dispersal of industries to promote balanced regional development in the country. Big industries are concentrated everywhere in urban areas. But, small industries can be located in rural and semi-urban areas to use local resources and to cater to the local demands. Admittedly, it will not be possible to start small enterprises in every village, but it is quite possible to start small enterprises in a group of villages. Decentralisation of industrial enterprises will help tap local resources such as raw materials, idle savings, local talents and ultimately improves the standard of living even in erstwhile backward areas. The most glaring example of this phenomenon is the economy of Punjab, which has more small-scale units than even the industrially developed state of Maharashtra.

5. **Latent Resources Argument**: This argument suggests that small enterprises are capable of mapping up latent and unutilized resources like hoarded wealth, ideas, entrepreneurial ability, etc. However, Dhar and Lydall say that the real force of latent resources argument lies in the existence of entrepreneurial skill. They argue that there is no evidence of an overall shortage of small entrepreneurs in India. Hence, they doubt the force of this latent resources argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, than what obstructed the growth of small enterprises.

1.8 IMPORTANCE OF SMALL SCALE INDUSTRIES

Small-scale industries play an important role in industrial development of a country. It is all the more important in case of developing countries like India. The socio-economic transformation of India cannot be achieved without the development of small-scale industries. It has been estimated that the small-scale industries contribute about 47 per cent of gross value of output manufactured in the country. Their importance can be further highlighted by noting that SSIs provided nearly five times the employment as compared to the large-scale sector. SSI is an important segment of the economy contributing substantially in the form of production, employment and export. The various advantages of small-scale industries to highlight the importance of this sector is given below in details.

**The main advantages are as follows:**

1. **Generation of Employment**: The small-scale industries are labour intensive i.e. the ratio of labour to investment is very high in their case. A given amount of
capital invested in a small-scale industry provided more employment than the same amount of capital invested in a large-scale industry. Since capital is scarce and labour abundant in India, the generation of employment is the advantage that can be put forward for the support of small-scale industries in India. Moreover, these industries can be set-up at the very doorstep of workers and, thereby, provide work for the unemployed, more work for the underemployed and supplementary work for the seasonally unemployed workers.

2. **Self Employment:** The small-scale industries offer almost limitless opportunities for self employment and hence are particularly suited to a developing country like India where there is a big problem of unemployment and underemployment.

3. **Lesser Capital Requirement:** Another advantage of small-scale industries is that they need relatively lesser amount of capital than that required by large-scale industries. As capital is very scarce in an underdeveloped country like India, it may be used to greater advantage in small-scale sector.

4. **Mobilisation of Capital:** Small-scale industries not only make economies in the use of capital but also mobilise capital that would not otherwise have come into existence. Large-scale industries cannot mobilise the savings from rural areas, while this task can be effectively accomplished by setting up a network of small-scale industries in such areas.

5. **Mobilisation of Entrepreneurial Skill:** Another advantage of small-scale industries is the lesser requirement of skill and expertise, which is also scarce in a developing country like India. Further, large-scale industries cannot utilise a number of entrepreneurs who are spread over small towns and villages of the country. On the other hand, small-scale industries can effectively mobilise such entrepreneurial skills.

6. **Equitable Distribution of Income:** Small-scale industries secure a more equitable distribution of income and wealth. They are particularly suitable for the fulfillment of the objective of social justice. This is ensured because the ownership of small-scale industries is more widespread and they offer a much longer employment potential as compared to the large-scale industries. The development of large-scale industries tends to concentrate large incomes and wealth in a few hands.
7. **Balanced Regional Development:** Small-scale industries utilize local resources, bring about dispersion of industries and promote balanced regional development. The growth of large-scale industries on the other hand have a tendency towards concentration of industries at a few places leading to many evil consequences such as overcrowding, pollution, creation of slums, etc. Concentration of industries at a few places is undesirable from the point of view of national defense also, as during war times, there is a greater risk of destroying different industries concentrated at one place.

8. **Saving in Foreign Exchange:** Other advantages of the small-scale industries are the savings they offer in the scarce foreign exchange resources of the country. Firstly, small-scale industries do not require much foreign exchange resources for their establishment and secondly, these industries can contribute to the foreign exchange resources of the country through adding to exports.

9. **Quick Investment:** The time lag between the execution of investment project and the start of production of goods is relatively short in case of small-scale industries. These quick investment type of industries are particularly suitable for developing countries like India.

10. **Beneficial to large-scale industries:** Large-scale industries can also prosper and develop, if small-scale industries manufacture and supply their small parts and semi-finished goods required by them. Infact, small-scale industries are a must for the development of large-scale industries.

11. **Other advantages:** These industries also confer certain other social and political benefits such as overcoming territorial immobility, reduction of pressure on land, relieving congestion in urban areas, self-employment, etc.

1.9 **ROLE OF SMALL SCALE INDUSTRIES IN INDIAN ECONOMY**

Small-scale and cottage industries have been playing an important role in Indian economy in terms of employment generation and growth. It is estimated that this sector has been contributing about 47 per cent of the gross value of output produced in the manufacturing sector and the generation of employment by the small-sector is more than five times to that of large-scale sector. The following are some of the important roles played by small-scale industries in India:
Table No 1.2
SSI Numbers, Employment and Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Number (in Millions)</th>
<th>Employment (in Millions)</th>
<th>Production (' Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>10.11</td>
<td>23.87</td>
<td>261297</td>
</tr>
<tr>
<td>2001-02</td>
<td>10.52</td>
<td>24.93</td>
<td>282270</td>
</tr>
<tr>
<td>2002-03</td>
<td>10.95</td>
<td>26.02</td>
<td>314850</td>
</tr>
<tr>
<td>2003-04</td>
<td>11.36</td>
<td>27.14</td>
<td>364547</td>
</tr>
<tr>
<td>2004-05</td>
<td>11.86</td>
<td>28.26</td>
<td>429796</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.34</td>
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<td>2006-07</td>
<td>26.10</td>
<td>59.46</td>
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</tr>
<tr>
<td>2007-08</td>
<td>27.28</td>
<td>62.63</td>
<td>790759</td>
</tr>
<tr>
<td>2008-09</td>
<td>28.52</td>
<td>65.94</td>
<td>880805</td>
</tr>
<tr>
<td>2009-10</td>
<td>29.81</td>
<td>69.54</td>
<td>982919</td>
</tr>
<tr>
<td>2010-11</td>
<td>31.15</td>
<td>73.22</td>
<td>1095758</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI

1. **Number of Units**: Total number of registered small-scale and cottage units has been increasing rapidly from 2000. Total registered small-scale industries in 2000-01 are 10.11 millions, in 2004-05 are 11.86 millions, and in 2009-10 the number increased up to 31.25 millions. In the decade, SSI number is increased in three times. Moreover, there were about 58.4 lakhs unregistered small-scale units in India. But as per the census of SSI units, about 30% to 40% of these registered units might be non-functional. The Fourth All India Census of registered small-scale industrial units was conducted by Small Industries Development Organisation in 2006-07. Findings of the census also give added empirical support to the generally accepted hypothesis about the distinct characteristics of the SSI sector compared with those of the large and medium sector, namely lower capital base, lower capital labour ratio, lower productivity of labour and higher productivity of capital and lower wage rates.
The above graph shows the increasing number of SSI units in India. After the year 2005-06 the graph showing rapid incensement in the number of SSI units registration. MSME Act 2006 change the definition of small scale industry. So the changes seen in the graph.

2. Employment Generation: Small-scale industries are labour-intensive and thus are generating a large number of employment opportunities. Total employment generated by these small-scale industries has increased from 23.87 million in 2000-01 to 73.22 millions in 2010-11. The Growth of employment is more than three times in the above period. As development in a country takes place the share of agriculture in providing employment and in GDP decreases. Small scale industries provide maximum employment next only to the agricultural sector. Small industries are generally labour intensive and therefore promise wider employment possibilities for ever increasing population of India. They are also suitable as supplementary source of employment for the Indian farmers who remain out of work during lean period of agricultural season. Small scale industries offer promising opportunities to educated unemployed
in the urban areas to become self employed gainfully. The dispersed, unorganised and often household based micro and small enterprises are capital saving, labour intensive and environment friendly. In India, they are the largest source of employment after agriculture and are found in both rural as well as urban areas. In nearly three decades, the structure of rural employment has not changed much.

The largest source of employment after agriculture SSI sector in India enables men, women living in urban slums, upcoming towns, remote villages and isolated hamlets to use indigenous knowledge, cultural wisdom and entrepreneurial skills for the sustains of their lives and livelihood. Apart from contributing to national income, small scale industries are instrument of inclusive growth, touching the lives of the most vulnerable, the most marginalized. For many families it is the only source of livelihood, for others, it supplements family income. Thus instead of taking a welfare approach this sector seeks to empower people to break cycle of poverty and deprivation. It focuses on peoples skills.

Different segment of small scale sector are dominated by different the social groups. Women are mostly found in the unregistered sector, food processing enterprises manufacturing enterprises, weaving and often work in family enterprises. Women and children role bidis, make agarbattis, do zari and sequin work for meagre wages. In the north east of India most women engage in weaving.

Small scale industries are labour intensive and thus are generating huge number of employment opportunities. Total employment generated by these SSI has increased from 23.87 million in 2000-01 to 73.22 million in 2010-11. The total employment from MSE sector including (MSMEs) in the country as per the 4th all India censes of MSEs with reference year 2010-11 was 73.22 million numbers. the units operating with fix premises are treated as MSMEs. As per the compiled for the year 2007-08 the employment was 62.63 million persons in the sector. As per the Fourth All India Census of registered small-scale industrial units was conducted by Small Industries Development Organisation in 2006-07 the share of MSMEs in total employment among units engaged in manufacturing and service is around 34.93%.
The following graph No. 1.2 shows the number of SSI units and employment created by SSI in the period 2000-01 to 2010-11.

**Graph 1.2**

**SSI & Employment**

![Graph](image)

**Table 1.2 B**

Sector wise employment in India

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>237.67</td>
<td>258.93</td>
<td>244.85</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>44.05</td>
<td>55.77</td>
<td>50.74</td>
</tr>
<tr>
<td>Mining</td>
<td>2.17</td>
<td>2.64</td>
<td>2.95</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water Supply</td>
<td>1.13</td>
<td>1.30</td>
<td>1.25</td>
</tr>
<tr>
<td>Construction</td>
<td>17.54</td>
<td>26.02</td>
<td>44.04</td>
</tr>
<tr>
<td>Services</td>
<td>94.20</td>
<td>112.81</td>
<td>116.34</td>
</tr>
<tr>
<td>Total</td>
<td>396.76</td>
<td>457.46</td>
<td>460.22</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI
The main sector for employment is agriculture in India. It is always near about 50 percent of total employments. The next sector is service sector which produce near about 25 percent employment in India.

**Graph 1.3**

**Sector wise employments**

3. **Investment:** Investment in the small-scale sector has been increasing at a faster rate. As per the statistics made available by SIDO, total amount of investment in the small-scale units of India has increased significantly from Rs. 93555 crores in 1990-91 to Rs. 139982 crores in 1999-2000 and Rs. 178699 crores in 2004-05. It goes to 693835 in the year 2009-10. Fixed investment per employee which was Rs. 6.4 thousand in 1972 as per SSI census gradually rose to Rs. 99.77 thousand in 2009-10 as per the results of Annual Survey of Industries (ASI). (Ref. Table No. 1.4)

4. **Output:** Total production of small scale units has increased from Rs.7200 crore in 1973-74 to Rs 261297 crore in 2000-01. The value of output of SSI sector in 2005-06 was Rs 497842 crore showing an increase of 13.9% over the output of Rs 1095758 crore in 2010-11(at current price). (Table No 1.4)
Small scale units are the backbone of the Indian economy. They produce and supply almost 8000 products catering for various needs of the local customers. Thus they contribute about 40% of total industrial output and about 45% of the total export earnings

**Graph 1.4**

Production of SSI

Production of SMEs is increasing every year rapidly. In the year 2010-11 it was highest.

5. **Contribution to Exports**: The contribution of SSI sector towards export has been increasing at a faster rate. Small industries have also made a substantial contribution to the country’s export efforts. The contribution of small sector in India’s export earnings has increased steadily over the years. It is important to note that the bulk of the exports of small scale industries consists of various non traditional items such as readymade garments, sports goods, finished leather, leather products, woollen garments and knit wear, processed foods, chemical and allied products and a large number of light engineering goods.

It is interesting to note that handicrafts have emerged as a leading revenue earning attempt in India’s exports. There is a tremendous potential to expand the
quantum of exports from traditional SSIs because they are handcrafted and hence eco
friendly and exclusive. Further while small scale industries are unable to take the
advantage of economies of scale, they are ideal for meeting small order quantities, a
bonus in industries like readymade garments, home furnishing etc.

The contribution of small scale sector towards the export has been increasing
at a faster rate. The value of exports produce by the small scale sector has increased
from Rs 1600 crore in 1980-81 to Rs 9664 crore in 1990-91 and Rs 69797 crore in
2000-01. The export was Rs. 204817 in the year 2009-10. export from small scale
sector in the total exports has increased from 23.8 percent in 1980-81, 34.3 percent in
2000-01 and 47 percent in 2008-2009. (Refer Table no. 1.7)

6. Equitable Distribution of Income: Small-scale and cottage industries has been
resulting more equitable distribution of national income and wealth. This is mainly
due to the fact that the ownership of small-scale industries is quite widespread as
compared to large-scale industries and small-scale sector is having a higher
employment potential than that of large-scale sector.

7. Mobilisation of Capital and Entrepreneurial Skill: Small-scale industries can
mobilise a good amount of savings and entrepreneurial skill from rural and semi-
urban areas which remained untouched from the clutches of large-scale sector. Thus, a
huge amount of latent resources are being mobilised in the SSI sector for the
industrial development of the country.

8. Regional Dispersal of Industries: Small-scale industries are playing an important
role in dispersing the industrial units of the country in the various parts of the country.
As the large-scale industries are mostly located in some states like Maharashtra, West
Bengal, Gujarat, Tamil Nadu, thus dispersal of SSI units throughout the country can
achieve the balanced pattern of industries development in the countr. SSI are playing
important role in dispersing the industrial units of the country in the various part of
the country. As the large scale industries are mostly located in some states like
Maharashtra, West Bengal, Gujrat, Tamilnadu, thus dispersal of SSI units throughout
the country can achieve a balance pattern of industrial development in the country.

India is facing main problem of migration of people from rural to urban areas.
Small scale units can stop this problem as this sector can achieve wider dispersal of
industrial activities and thereby it can bridge the wide gap existing between the urban
and rural areas and avoid overcrowding of the cities.
Decentralization argument impresses the necessity of regional dispersal of industries to promote balance regional development in the country. Large industries are concentrated everywhere in urban areas. But small industries can be located in rural and semi urban areas to use local resources and to cater to the local demands. The international perspective planning team also rightly stressed that the focus for industrial development under a dispersal policy should be neither the metropolis nor the village, but rather the large range of potentially attractive cities and towns between these two extremes.

Decentralisation of industrial enterprises will help tap local resources such as raw materials, idle savings, local talents and ultimately improves the standard to living in backward areas.

9) Mobilisation of capital and entrepreneurial skill:

SSI can mobilise good amount of savings and entrepreneurial skill from rural and semi urban areas remained untouched from the clutches of large scale sector. Thus a huge amount of latent resources are being mobilised by the SSI sector for the industrial development of the country. The emergence of entrepreneurial class requires a conductive environment. The fact remains that small enterprises provide such environment in which the latent talents of entrepreneurs find self expression. Our economic history bears this evidence. The impressive growth in the number of small enterprises in the post independent period highlight the same fact that providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be taped by the growth of small enterprises only.

9. Better Industrial Relation: The small-scale industries are maintaining better industrial relations between employers and employees and thus can lessen the frequency of industrial disputes. But the large-scale industries are facing the problems of strikes and lockouts and hence good industrial relations in these industries are very difficult to maintain. Thus, the loss of production and man days are comparatively less in small-scale sector.

It is due to the above mentioned factors the growth rate of small-scale industrial sector has remained faster in terms of its number, employment and output.
10. Equitable distribution of income:

Small scale industries have been resulting in a more equitable distribution of national income and wealth. This is mainly due to the fact that the ownership of small scale industries is quite widespread as compared to large scale industries and small scale sector is having a higher employment potential than that of large scale sector.

A major argument in favour of small scale industries is regarding equity such, as industries due to their labour intensive character and decentralised operation, ensure a more equitable distribution of national income and wealth.

11. Utilising latent resources:

Small scale units can tap potential resources like horded wealth and entrepreneurial abilities. This is a definite gain to community. They also encourage the growth of a new class of entrepreneurs which is a dynamic element in the economy and creates an environment for growth.

SSI is important vehicles for meeting the growth and equity with social justice objectives of developing economies. Achievement of these objectives is seen as desirable in almost all developing countries, though the relative importance of these objectives varies from country to country, depending upon the differences in the socioeconomic and political complexes. In short small enterprises sector help in generating large scale employment, wedge goods and income and fairly dispersed manner, mobilising dormant skills and resources enhancing entrepreneurship, energising village economies, aiding the process of backward areas development and playing an important role in the overall process of industrialisation.

1.10 GROWTH AND DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES DURING PLAN PERIOD

The Government of India has undertaken several measures to promote the small scale industries through five year plans as this sector solves the unemployment problem, its contribution to the economy in terms of production and exports. Therefore, the planners stressed greater importance for the development of small industries. Many programs were implemented by the governmental authorities to develop these industries in the country during the various plan periods.
Table - 1.3
Outlay of small scale industries in the successive Five Year Plan periods

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total outlay</th>
<th>Allocation of SSI</th>
<th>% share of SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>1960</td>
<td>5.2</td>
<td>0.27</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>4672</td>
<td>56</td>
<td>1.2</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>8577</td>
<td>113.06</td>
<td>1.32</td>
</tr>
<tr>
<td>Annual Plan (1966-69)</td>
<td>6625</td>
<td>53.48</td>
<td>0.81</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>15779</td>
<td>96.19</td>
<td>0.61</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>39426</td>
<td>221.74</td>
<td>0.56</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>12177</td>
<td>104.81</td>
<td>0.86</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>109292</td>
<td>616.1</td>
<td>0.56</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>180000</td>
<td>1120.51</td>
<td>0.62</td>
</tr>
<tr>
<td>Eighth Plan (1992-97)</td>
<td>434100</td>
<td>1629.55</td>
<td>0.66</td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>859200</td>
<td>4303.85</td>
<td>0.5</td>
</tr>
<tr>
<td>Tenth Plan (2002-2007)</td>
<td>1865700</td>
<td>5534</td>
<td>0.3</td>
</tr>
<tr>
<td>Eleventh Plan (2007-2012)</td>
<td>1096890</td>
<td>10168</td>
<td>0.93</td>
</tr>
</tbody>
</table>


The plan outlay is shown in the table-1.3. It is observed that the financial outlay pertaining to small scale industries had registered an increasing trend with each plan reflecting the significance of this sector in the economic development of the nation.

**First Five Year Plan (1951-1956)**

During the first plan period, major steps were taken for the development of small industrial units by establishing the all India boards to advice and assist in the formulation of the developmental programs of small industrial units. Store purchase and replacement of imports were the two directions in which the demand for products of small industries could be deliberately developed. The establishment of new centers of small industrial production townships for providing valley products, training, research and development, arrangement of finance were the various aspects which were stressed in the first five year plan. A network of various all India boards such as, the Khadi and Village Industries Board, the Handloom Board and the Agriculture Board were established. Four regional small industrial service units were set-up to provide technical assistance to these industrial units.

The First Plan was not a comprehensive one and it was a rehabilitation plan to bring up the Indian economy which was ravaged by the partition of the country and
the consequent refuge influx, the shortages that existed in the economy and to make up a sound base for the more rapid advance in future. Hence, the plan tried to lay the foundation for the improvement of the small industrial units. The total outlay for the small industrial units was Rs.5.2 crore during the First Plan period. The Karvey Committee was appointed by the Planning Commission in 1955.

**Second Five Year Plan (1956-1961)**

The government wanted to implement the recommendations of Karvey Committee to avoid technological unemployment and to provide employment in traditional industries. The Second Five Year plan proposed an outlay of Rs.56. During the second plan period nearly 60 industrial estates were set-up with an expenditure of Rs.10 crore. At the end of the second plan, extension officers for industries were provided to 1650 development blocks out of 3110 blocks in India. During the period between 1956 and 1960, many small industrial units were established for the production of bicycles, sewing machines, machine tools, electric motors and electric fans were established.9

**Third Five Year Plan (1961-1966)**

The main objectives of the small industries of the 3rd Plan were to improve the productivity of the workers, to enlarge the availability of institutional finances and the growth of small industrial units in rural areas and small towns.10 During the 3rd Five Year plan the outlay of Rs.84.6 crore. During the 3rd Five Year plan and the Annual plan nearly 140,000 small industrial units were registered with the states industries directorates and 346 industrial estates were completed by the end of March 1969. The small industrial units’ set-up in these estates provided employment to 82700 persons. Their annual production of the small industrial units, during 1966-69 was Rs.1556 crore. The progress of small scale units in the Third and Annual plans has been quite satisfactory and greater success in urban areas than that of rural and semi-urban areas.

**Fourth Five Year Plan (1969-1974)**

It accepted the policy of decentralized growth of industries. In July 1969, 14 major commercial banks of the country were nationalized and this helped to accelerate the flow of funds from the banks to the small sector. The main Programme during the plan were credit facilities under state aid to industries, training and common service facilities, quality marketing, and consolidation of the industrial estates programmed to be administered by the states.11
The main objectives of the Fourth plan were to improve the production techniques of small industries to promote decentralization and dispersal of industries and to promote agro-based industries. To achieve the objectives an outlay of Rs.104.3 crore was proposed, but the actual expenditure incurred was Rs.70.3 crore with a gap of 34.0 crore.

The number of units registered on voluntary basis with the industries directorates of the states and union territories increased from Rs.2 lakhs in 1969 to Rs.4.09 lakhs in 1973. The total employment by these units was Rs.39.65 lakhs; output and exports were Rs.7200 crore and Rs.538 crore in 1973-74. The annual production of the units in estates was increased by Rs.127 crore and employment by 23,30,513. However, the pace of growth of most industries continued to be uneven in different states and union territories. Besides, this progress in realizing certain other objectives envisaged in the fourth plan including the progressive improvement of skills and production techniques, promotion of industries in semi-urban and rural areas and rapid development of agro-based and ancillary industries had not been up to the expectations.

**Fifth Five Year Plan (1974-79)**

The principal objective in the Fifth plan for the development of small industrial sector was the removal of poverty and inequality in the living standards of those depending on traditional industries through creation of large scale opportunities, improvement of their skills and thereby to increase their earnings.\(^{12}\) opened a new chapter by emphasizing removal of poverty by provision of many self-employment schemes through cottage and small scale industries, which received their due share in the plan allocation. The broad strategy of the programme for the development of the small industries was to:

a) Develop and promote entrepreneurship and provide a package of consultancy services’ so as to generate the maximum opportunities for employment, particularly self-employment; Facilitate fuller utilization of the skills and equipment of the persons already engaged in different small units;

b) Progressively improve the production techniques of these industries so as to bring them to a viable level; and

c) Promote these industries in selected ‘growth centers’ in semi-urban and rural areas including backward areas.
With these objectives the government reserved 124 items exclusively for small industrial units and different programs were introduced for the development of ancillary units as feeder industries to large scale units. The fifth plan proposed an outlay of Rs.241.3 crore. But the actual expenditure incurred was Rs.221.7 crore with a gap of Rs.19.6 crore. The number of units registered on voluntary basis with the industries directorates of the state and union territories increased from Rs.4.09 lakhs in 1973-74 to Rs.7.99 lakhs in 1979-80. The total employment increased from 39.7 lakhs in 1973-74 to Rs.65.00 lakhs in 1979-80, an excess of 25.3 lakhs. Output also increased from Rs.7200 crore in 1974-75 to Rs.19060 crore in 1979-80 an excess of Rs.4475 crore, and exports from Rs.538 crore in 1973-74 to Rs.1050 crore in 1979-80, an excess of Rs.512 crore.

Nevertheless, some of the important objectives set for the small sector units are not fully achieved. The dispersal of small industrial units far away from the metropolitan area and large cities has not taken place to an appreciable extent. Available data indicate that the industrially developed states along with Delhi accounted for nearly 67 percent of the registered small industrial units, which had come-up to 1976 and 75 percent of the employment generated by them.

**Sixth Five Year Plan (1980-85)**

The Sixth Five Year Plan marked a significant stage in the development of small scale industry. The promotion of village and small scale industries was to continue to be an important element in the national development strategy because of its very favorable capital output ratio and high employment intensity. During the Sixth Five year Plan the programs for the village and small industries sector were framed with the following objectives:

(i) Improvement in the level of production and earnings, particularly in the earnings of artisans, by up-grading skills and technologies and producer oriented marketing.

(ii) Creation of additional employment opportunities on a dispersed and decentralized basis.

(iii) Ensuring a significant contribution to growth of manufacturing sector through full utilization of existing installed capacities.

(iv) The establishment of a wider entrepreneurial base by providing appropriate training and package of incentives.

(v) Creation of a viable structure of the village and small industries sectors so as to
progressively reduce the role of subsidies.

(vi) Expand efforts in export promotion.

As a major contributor to the planned growth of employment, the small scale sector received a very high priority. The development effort was mounted on many fronts. Certain products were reserved for manufacture extensively in the small scale sector. The excise duty differentials ensured that the products of the small scale sector were cheaper for the public than similar products manufactured by the large scale sector.

To ensure a coordinated growth and to minimize the number of contact points, District Industrial Centers were set-up. Transfer of research and technology to this sector added much greater impetus. As for credit, the possibility of extending the margin money scheme was considered. In the marketing of products, a major effort was mounted to remove the middlemen and to provide, through the co-operative sector, a remunerative outlet for the products of cottage industries. Steps were taken to enhance the provision for training, technical assistance and other facilities.

**Seventh Five Year Plan (1985-1990)**

Within the overall objectives of food, work and productivity laid down in the seventh plan, this sector would contribute towards improving the economic and occupational profile of rural, semi-urban and weaker sectors of urban communities through promotion of village and small industrial activities. This sector would:

A. Assist in the growth and widespread dispersal of industries
B. Increase the levels of earnings of artisans
C. Sustain and create avenues of self employment.
D. Ensure regular supply of goods and services through use of local skills and resources. Development of entrepreneurship in combination with improved methods of production through appropriate training and package of incentives. Preserve craftsmanship and art heritage of the country.

The 7th Plan would focus on up-gradation of technology by strengthening creation of tooling and workshop facilities for development of prototype design, new products and processes, promoting the dispersal of industries to the less developed areas and impart higher levels of training. Simultaneously special emphasis would be laid on human resource development, particularly training programs between the central and state levels. The specialized agencies like small industries service
institutes, national institute for entrepreneurship and small business development national institute of small industry extension training etc., would provide increased extension services and establish service outlets in centers of industrial activity. The Development Commissioner of Industries has been engaged in promotion, development and regulatory activities for the small scale sector. This office inter alia takes care of technology, training, common services, tooling facilities, design and development of prototypes, entrepreneurial development, data collection and monitoring of production of items reserved for this sector. A number of regional testing centers were established for providing quality marking services. A number of consultancy organizations were established with the assistance and participation of Industrial Development Bank of India.

For the entire program an outlay Rs.1120.00 crore was proposed in seventh plan and 0.6 percent of total outlay as shown in table-1.3. In the 7th Five year plan period, the value of production ranges from Rs.1220 crore to Rs.92080 crore, employment from 11900 to 119.60 lakhs persons and export from Rs.23500 to Rs.414000 crore and in the annual plan also 1990-91 to 1991-92, the value of production varies from Rs.1,59,062 to Rs.160000 crore, employment from 12550 lakhs persons to 12600 and export Rs.710000 crore to Rs.12658.00 crore.

Eighth Five Year Plan (1992-1997)

During Eighth Five year plan Rs.2862.1 crore were allocated for the development of villages and small industrial units out of the total plan outlay of Rs.4,34,100 crore. The eighth plan aimed at a growth rate of 5.6 percent. The growth rates for the manufacturing sector and export were kept at 7.3 percent and 13.6 percent respectively. During the Eighth plan, people’s initiative and participation would play key element in the process of development. One of the areas of priority of the eighth plan was generation of adequate employment to achieve full employment. Several activities pertaining to this sector like processing of agricultural produce in rural areas, agriculture and allied activities have been identified as critical goals in priority sectors.

The Reserve Bank of India appointed a committee in December, 1991 to review the arrangements for meeting the working capital requirements of small industrial units and for the rehabilitation of sick small industrial units and to examine the other issues relating to small industrial units. The growth centre approach was
accepted as a suitable measure for industrial dispersal and was under implementation in large and medium industries sector. During the eight plans, establishment of 70 growth centers has been envisaged. It is proposed to earmark area for small scale industries.16

**Ninth Five Year Plan (1997-2002)**

During the ninth plan various initiatives were taken to strengthen the small industrial units through technology up gradation, modernization, enabling and encouraging them to enhance quality, introduction of modern management practices, providing marketing and other key inputs, increasing the availability of credit/loans from financial institutions and banks against materials supplied, etc.17

Fifty integrated infrastructure development centers were set-up during the eighth plan for infrastructure facilities of small industrial units developed in backward and rural areas, out of which, 22 had been approved. This scheme continued during the ninth plan period to help the small industrial sector. The government has given financial assistance of Rs.75000 per each small scale unit as being provided to acquire ISO9000 or an equivalent quality certification. The credit provided to the small industrial sector by the public sector banks stood at Rs.31542 crore by March 1997. The cumulative disbursement by the state financial corporation has amounted to Rs.12,704 crore up to March 1996.

**Tenth Five Year Plan (2002-2007)**


Enhancement of excise duty exemption limit for small industrial units from Rs.50 lakhs to Rs.100 lakhs. Increase in composite loan limit to Rs.25 lakhs Coverage of loans up to Rs.25 lakhs under the credit guarantee fund scheme. Increase in projects cost limit under the national equity fund scheme to Rs.50 lakhs Credit linked capital subsidy at 12 percent of the cost of technological up-gradation of small industrial units for modernization of small industrial units. The service and business related small industrial units with a maximum investment limit of Rs.10 lakhs would also be covered under priority lending. Enhancement of investment limits to Rs.500 lakhs for hi-tech and export oriented sectors.19

Technology bank would be setup for small industrial sector by strengthening
the existing technology bureau for small enterprises of SIDBI. One time capital grant of 50 percent to small industry associations for setting up international level testing laboratories for small industrial units. Preference to be given to tiny units while organizing buyer meets, vendor development programs and exhibitions. Conduct of third census on small industries.

**Integrated infrastructure development centers scheme extended to all areas.**

During the 10th Plan, 58 IIDCs (Integrated infrastructure development centers) had been approved and central grant of Rs.38.83 crore had been released up to February 2001; an additional 50 centers were proposed to be taken up during the tenth plan period. The 10th Plan period was expected to increase the production of these small industrial units to Rs.14,01,939 crore, the employment to 23.7 million persons and the export to Rs.126000 crore by 2006-07. Out of the total plan outlay of Rs.18,65,700 crore as on 2002-07, the proposal outlay for the development of village and small industrial units was Rs.5,534 crore. The target of the sector is to reach 12 percent per annum during the 10th Plan.20

**Eleventh Five Year Plan (2007-2012)**

The Eleventh plan would aim at raising the rate of growth of the Industrial sector to 10 percent per annum. Continuing commitment to priority lending for micro small medium enterprises remains an essential feature of development banking. The eleventh plan must ensure that the policies are sufficiently flexible to support the development of Micro finance.21 In the Eleventh plan, the strategy of manufacturing proposed by the National Manufacturing Competitive Council (NMCC) includes the following initiatives:

(i) Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote the small scale sector and be consistent with the unified national market, so that the Indian industry can reap the benefit of economies of scale and scope.

(ii) While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.

(iii) Modern technology paves the way for high industrial growth.

(iv) State governments should take steps to create an investor friendly climate providing a single window clearance of applications for establishment of
industrial units.

(v) Labour-intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector.

(vi) The policy of progressive de-reservation of industries for small scale production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the 11th plan at an accelerated pace.

(vii) Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.

(viii) The existing incentive programs such as those available for the north-east, J&K, Himachal Pradesh and Uttarakhand need to be reviewed with a view to assess their impact on industrialization in these areas.

(ix) The Industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises.

The 11th Plan has placed special emphasis on infrastructure and skill formation. Competition is the best guarantee of consumer protection and should be strongly encouraged. It needs to be ensured that the unregistered small enterprises and units outside the co-operative fold are also able to benefit from government schemes. A cluster approach can help increase viability by providing these units with infrastructure and support services of better quality at lower costs. All entry barriers should be removed and business risks for start-ups mitigated, the latter inter-alia, through a large number of well-managed business incubators in the identified thrust areas of manufacturing. There should be special focus on the services sector, so that its potential to create employment and growth is fully realized. Under the eleventh plan, there should be two kinds of schemes, one focusing on the lives of small firm workers, artisans and craft people and the other on their livelihood. One of the important tasks of the eleventh plan would be to review the position of small scale sector.

1.11 INDUSTRIAL POLICY RESOLUTIONS

India has a long history of conceiving policies for the protection of the small industrial units, and their origin can be traced back to the days of national movement and to Mahatma Gandhi's emphasis on village industries. Gandhi stressed the need to promote village and small industrial units because of their desirable social and employment consequences. The swadeshi movement and the decision to boycott
British goods before II World War led to the growth of large cotton mill industry in India but not the small scale cottage industry. In fact the handloom industry declined due to the stiff competition faced from the large mill industry.

Since Independence several industrial policy resolutions have been formulated to promote industrial growth in the country. These resolutions have helped the small industrial units through various incentives in order to fulfill the social economic objectives. These incentives were related to the fiscal and infrastructural measures and were targeted at achieving the growth of the sector during the plan periods. The main objectives of industrial policy resolutions were to promote industrial growth and also to determine the pattern of state assistance to small industrial units for fulfilling socio-economic objectives.²³

**Industrial Policy Resolution 1948**

The industrial policy resolution of 1948 spelled out the details of some basic and strategic industries to be established by the state in addition to those in which the private sector could be permitted to play a role. The policy aimed at a balanced growth of different manufacturing sectors and focused on the co-existence of large, small and cottage industries. An emphasis was laid on the promotion of cottage and small industrial sector as these could play a crucial role in the rehabilitation of displaced persons through establishment in individual and corporate units. In 1948 an all India cottage industries board was set-up at the end of 1st Plan and a series of boards was established to deal with the traditional industries. There were the: All India Handloom Board, All India Handicrafts Board, Central Silk Board, Coir Board, All India Khadi and Village Industries Board, and Small Scale Industries Board.²⁴

The first five industries came under the category of traditional industry, while the Small Scale Industries Board was concerned with the modern small scale industry. The Industrial Regulations and Development Act (IRDA), which was passed in 1951, served as the main objective of government policy for regulating industrial growth. The IRDA exempted these industries from registration when the units were using power and were employing less than 50 workers or employing less than 100 workers without using the power. For certain specified industries like cotton, weaving and matches, no new units were allowed to be set-up without prior approval even when the units propose to employ less than 50 workers. In 1955 the Village and Small Sale Industries Board was set-up to encourage and protect the village and small
scale industries. The main objectives of the committee were:

(i) To avoid technical un-employment
(ii) To increase the employment through village and small industries.

To provide the basis for a structure of an essential decentralized society.

**Industrial Policy Resolution 1956**

The industrial policy resolution of 1956 supported the industrial measures to improve the competitive strength of enterprises while recognizing the role of small industrial sector in providing employment opportunities and in mobilizing local skills and capital resources. Industries have been classified into three categories, viz., those exclusively reserved for public sector, those in which the public sector would take initiative with the private sector and the third category representing the remaining industries that would be left to the private sector. The starting of industrial estates to set up and expand the small industrial units was a very important measure for the growth of different types of small industrial units all over the country during second five year plan period. The industrial estates provide the necessary infrastructure such as power, water, transport etc in the second plan. Thus, the Second Five Year plan gave a boost to the small scale industrial sector to develop extensively. The Third and Fourth Five year plans concentrated more on providing financial facilities, marketing facilities, etc., to the small industrial sector. The financial assistance to these units is provided by the State Financial Corporation, the Small Scale Industrial Development Corporations and Commercial Banks. The timing also coincided with the nationalization of banks in 1969 in order to provide more financial aid to the priority sectors of which small industrial sector is an important one. Later, a number of steps were taken both at central and state levels to develop small industrial units.

**Industrial Policy Resolution 1977**

The industrial policy statement of December 1977 stressed the need for a wider dispersal of cottage and small industries into rural areas and small towns. It emphasized the importance of effective promotion of cottage and small industries. The government committed itself to the concept that any product which could be produced by cottage and small industry be exclusively within the small enterprises sector. This led to the expansion of the list of reserved items for exclusive production of small industrial units. The number of items reserved expanded from 180 in 1976 to 500 in 1978 and more than 800 in 1979. It provided for an annual review of
their list in view of new products and new processes of manufacturer that emerge.

**Industrial Policy Resolution 1980**

The industrial policy statement of 1980 focused on integrated industrial development and suggested the setting up of nuclear plants in those districts which were identified as industrially backward with the expectation that these would help the spatial dispersal of small, ancillary units and that the existing network of small industrial units would grow faster. This industrial policy statement spells out the following socio-economic objectives.

(i) Optimum utilization of capacity.
(ii) Maximum production and achievement of higher productivity
(iii) Higher employment generation
(iv) To avoid the regional imbalances
(v) Strengthening of the agro based industries
(vi) Promotion of export-oriented industries

Small industrial units were redefined by raising the ceiling limit of investment in plant and machinery. The investment limit in the case of tiny units was enhanced to Rs.2 lakhs, the small industrial units to Rs.20 lakhs and ancillaries to Rs.25 lakhs. A scheme for building buffer stocks of essential raw material for the small industrial units was introduced through the small industries development corporations in the states and the national small entrepreneurs and the managerial assistants to improve the supply of managerial cadre to this sector. The small industries development fund was set-up in 1986 for providing refinance facilities for development and also for rehabilitation of small, cottage and village industries in rural areas. Later, the national equity fund was set-up in 1987 to provide equity type support to small entrepreneurs for the setting up of new projects in the small industrial sector. The small industrial development bank of India as a subsidiary of Industrial Development Bank of India was to provide credit to small industrial units and also refinance facilities to commercial banks.

**Industrial Policy Resolution 1990**

The policy resolution is related to mainly three important issues.

(i) Industrial licensing
(ii) Foreign investment and foreign collaboration
(iii) Agreement and investment ceilings for small industrial units
limit for small industrial units was revised from Rs.6 million to Rs.7.5 million for ancillary units and to Rs.0.50 million for tiny sector respectively. During this period central investment subsidy scheme was introduced for small industrial units. A special cell was established in small industrial development organization and state directorates of industries to impart training and conduct entrepreneurial development.

This industrial policy was announced separately for the small industrial sector with the basic objective to make this sector more competitive. The important measures indicated are:

(i) To shift emphasis from cheap credit to adequate flow of credit on normative basis.
(ii) To provide access to the capital market by allowing 24 per cent equity participation by other industrial undertakings.
(iii) To establish technology development cell to improve the productivity and competitiveness of small industrial units.
(iv) To promote marketing of small industrial units products through institutions.
(v) To create export development center in SIDO.

Industrial Policy Resolution 1991

In 1991 the Indian government announced a separate policy for the small and tiny sectors. This policy statement widened the investment limit for the tiny sector and removed the vocational reservations and recognized business and industry related services as small industrial units on par with the tiny units. The manufacture of items, banned in the small industrial units, was stopped. The small industrial units which employ less than 50 workers with power and 100 workers without power were exempted from licensing. The small and ancillary industries were exempted from licensing for all articles of manufacturer which were not covered by the public sector. The investment to 0.5 million and location conditions were withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location were recognized as small industrial units. A new scheme of integrated infrastructural development for small industrial units was provided with the participations of state government and financial institutions.

Industrial Policy Resolution 1999

The main objective of the industrial policy 1999 was to create a congenial environment for the small industrial units to cope up with the emerging challenges of
globalization. To focus fully on the promotion and development of small industry units a separate ministry of small industrial units and agro and rural industries was created. The policy initiatives were:

(i) The annual turnover limit for calculation of working capital limit for small industrial units was raised to Rs. 5 crore from Rs. 4 crore.

(ii) The maximum ceiling limit for composite loan schemes was increased to Rs. 5 lakhs.

(iii) To increase flow of credit to small industrial units a new credit insurance scheme was launched.

(iv) Small industrial units producing goods in rural areas were allowed excise exemption on third party branded goods.

(v) The definition of small and ancillary industry was revised by reducing investment limit in plant and machinery to Rs. 1 crore from 3 crore.

(vi) Special package for the development of small and village industries in northeastern regions was announced. The industrial units in the north eastern region were given exemption from excise duty for 10 years from the date of commencement of production and special emphasis was given on the units which have high export potential.

PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

The micro, small and medium enterprises sector plays a significant role in improving production, employment and exports of the country. This sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. This sector employs about 42 million persons in over 13 million units through the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sectors.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME’s in India. It is a well known fact that the MSMEs provide the maximum opportunities for both self employment and jobs next to agriculture. The data on various economic parameters to evaluate the performance of this sector is presented in table-1.4.

It can be observed from the data that the number of MSMEs has increased from 4.2 lakhs units in 1973-74 to 8.7 lakhs units by 1980-81. The increase in units
however has been predominant between 1980-81 and 1990-91 from 8.7 lakhs to 67.87 lakhs units. During the post reform period, the growth of MSME units has been gradual and steady which is evident from the increase from 97.15 lakhs units in 1999-2000 to 285.16 lakhs units in 2008-09. There has been a steady growth in investment, production, employment and exports during 2008-09 over 1973-74, the investment and production increase being from Rs.93,555 crore and Rs.78,802 crore in 1990-91 to Rs.6,21,753 crore and Rs.8,80,805 crore in 2008-09 respectively at current prices. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 39.7 lakhs in 1973-74 to 158.34 during 1990-91 and to 965.11 lakhs during 2010-11.

Table No 1.4

Performance of micro, small and medium enterprises sector in India during 1973-74 to 2010-11

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of MSMEs (in Lakh)</th>
<th>Fixed Investment (Rs. Crore)</th>
<th>Production (Rs. Crore) Current prices</th>
<th>Employment (Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>4.2</td>
<td>NA</td>
<td>7200</td>
<td>34200</td>
</tr>
<tr>
<td>1975-76</td>
<td>5.5</td>
<td>NA</td>
<td>11000</td>
<td>42500</td>
</tr>
<tr>
<td>1980-81</td>
<td>8.7</td>
<td>NA</td>
<td>28100</td>
<td>72200</td>
</tr>
<tr>
<td>1985-86</td>
<td>13.5</td>
<td>NA</td>
<td>61200</td>
<td>118100</td>
</tr>
<tr>
<td>1990-91</td>
<td>67.87</td>
<td>93555</td>
<td>78802</td>
<td>84728</td>
</tr>
<tr>
<td>1991-92</td>
<td>70.63</td>
<td>100351</td>
<td>87355</td>
<td>115797</td>
</tr>
<tr>
<td>1992-93</td>
<td>73.5</td>
<td>109623</td>
<td>92246</td>
<td>123790</td>
</tr>
<tr>
<td>1993-94</td>
<td>76.49</td>
<td>115797</td>
<td>98796</td>
<td>125750</td>
</tr>
<tr>
<td>1994-95</td>
<td>79.6</td>
<td>123790</td>
<td>122154</td>
<td>130560</td>
</tr>
<tr>
<td>1995-96</td>
<td>82.84</td>
<td>125750</td>
<td>147712</td>
<td>133242</td>
</tr>
<tr>
<td>1996-97</td>
<td>86.21</td>
<td>130560</td>
<td>167805</td>
<td>138492</td>
</tr>
<tr>
<td>1997-98</td>
<td>89.71</td>
<td>133242</td>
<td>187217</td>
<td>146263</td>
</tr>
<tr>
<td>1998-99</td>
<td>93.36</td>
<td>135482</td>
<td>210454</td>
<td>157525</td>
</tr>
<tr>
<td>1999-00</td>
<td>97.15</td>
<td>139982</td>
<td>233766</td>
<td>170379</td>
</tr>
<tr>
<td>2000-01</td>
<td>101.1</td>
<td>146845</td>
<td>261297</td>
<td>184401</td>
</tr>
<tr>
<td>2001-02</td>
<td>105.21</td>
<td>154839</td>
<td>282270</td>
<td>195613</td>
</tr>
<tr>
<td>2002-03</td>
<td>109.49</td>
<td>162317</td>
<td>314850</td>
<td>20621</td>
</tr>
<tr>
<td>2003-04</td>
<td>113.95</td>
<td>170219</td>
<td>364547</td>
<td>213.16</td>
</tr>
<tr>
<td>2004-05</td>
<td>118.59</td>
<td>178699</td>
<td>429796</td>
<td>220.55</td>
</tr>
<tr>
<td>2005-06</td>
<td>123.42</td>
<td>188113</td>
<td>497842</td>
<td>229.1</td>
</tr>
<tr>
<td>2006-07</td>
<td>261.01</td>
<td>500758</td>
<td>709398</td>
<td>594.61</td>
</tr>
<tr>
<td>2007-08</td>
<td>272.79</td>
<td>558190</td>
<td>790759</td>
<td>626.34</td>
</tr>
<tr>
<td>2008-09</td>
<td>285.16</td>
<td>621753</td>
<td>880805</td>
<td>659.35</td>
</tr>
<tr>
<td>2009-10</td>
<td>298.08</td>
<td>693835</td>
<td>982919</td>
<td>695.38</td>
</tr>
<tr>
<td>2010-11</td>
<td>428.77</td>
<td>1094893.4</td>
<td>1721534.3</td>
<td>965.11</td>
</tr>
<tr>
<td>2011-12</td>
<td>447.73</td>
<td>1176939.4</td>
<td>1834332.1</td>
<td>1012.59</td>
</tr>
</tbody>
</table>

Note: The data for the period up to 2005-06 is only for small scale industries (MSMEs) subsequent to 2005-06, data with reference to micro, small and medium enterprises are being compiled.

The compound growth rate of MSMEs investment, production, employment and export from 1990-91 to 2008-09 are worked out and presented in table-1.3. This period is again bifurcated into two sub-periods from 1990-91 to 2001-02 and from 2002-03 to 2010-11.

### Table No 1.5

**Compound annual growth rates of MSMEs in India during 1990-91 to 2010-11**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of MSMEs</th>
<th>Fixed investment</th>
<th>Production</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>4.07</td>
<td>29.03</td>
<td>12.3</td>
<td>4.21</td>
</tr>
<tr>
<td>2001-02</td>
<td>17.3</td>
<td>25.09</td>
<td>18.7</td>
<td>16.76</td>
</tr>
<tr>
<td>2010-11</td>
<td>8.3</td>
<td>26.26</td>
<td>14.35</td>
<td>5.25</td>
</tr>
</tbody>
</table>

*Source: Computed from the collected data.*

### Table No 1.6

**Comparative Data on Growth Rates of MSE Sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rates of 2001-02(%)#</th>
<th>Over all industrial Growth rates of base IIP (%)#</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>8.68</td>
<td>5.7</td>
</tr>
<tr>
<td>2003-2004</td>
<td>9.64</td>
<td>7</td>
</tr>
<tr>
<td>2004-2005</td>
<td>10.88</td>
<td>8.4</td>
</tr>
<tr>
<td>2005-2006</td>
<td>12.32</td>
<td>8.2</td>
</tr>
<tr>
<td>2006-2007</td>
<td>12.6</td>
<td>11.6</td>
</tr>
<tr>
<td>2007-2008</td>
<td>13.00*</td>
<td>8.5</td>
</tr>
<tr>
<td>2008-2009</td>
<td>Not Available</td>
<td>2.8</td>
</tr>
<tr>
<td>2009-2010</td>
<td>Not Available</td>
<td>10.4</td>
</tr>
</tbody>
</table>

*Note:* Projected, IIP – Index of Industrial Production

#: Source: M/o Statistics and PI website - http://www.mospi.gov.in

Table 1.5 and 1.6 shows that the compound growth rate of number of MSMEs for the whole period (1990-2009) is 8.30 percent, while it is 17.30 percent in recent past against the 4.07 percent during the period 1990-91 to 2001-02. In the production
from the compound growth rate for the whole period is 14.35 percent. It was 12.30 percent during 1990-91 to 2001-02 period and 18.70 percent in the recent past period. The compound growth rate of fixed investment is more than other components. It is 26.26 percent for whole period, the compound growth rates of employment have been worked to 4.21 percent, 16.76 percent and 5.25 percent for the corresponding periods respectively.

The details of exports are presented in table-1.7

**Table No 1.7**

**India’s exports and share of MSMEs during 1980-2009 (in crore)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Export of MSMEs</th>
<th>Share of MSMEs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>6711</td>
<td>1600</td>
<td>23.8</td>
</tr>
<tr>
<td>1981-82</td>
<td>7803</td>
<td>2070</td>
<td>26.5</td>
</tr>
<tr>
<td>1982-93</td>
<td>8908</td>
<td>2045</td>
<td>22.9</td>
</tr>
<tr>
<td>1983-84</td>
<td>9872</td>
<td>2164</td>
<td>21.9</td>
</tr>
<tr>
<td>1984-85</td>
<td>11744</td>
<td>2553</td>
<td>21.7</td>
</tr>
<tr>
<td>1985-86</td>
<td>10895</td>
<td>2800</td>
<td>25.7</td>
</tr>
<tr>
<td>1986-87</td>
<td>12567</td>
<td>3648</td>
<td>29</td>
</tr>
<tr>
<td>1987-88</td>
<td>15741</td>
<td>4525</td>
<td>29</td>
</tr>
<tr>
<td>1988-89</td>
<td>20232</td>
<td>5490</td>
<td>27.1</td>
</tr>
<tr>
<td>1989-90</td>
<td>27681</td>
<td>7626</td>
<td>27.6</td>
</tr>
<tr>
<td>1990-91</td>
<td>32553</td>
<td>9664</td>
<td>29.7</td>
</tr>
<tr>
<td>1991-92</td>
<td>44042</td>
<td>13883</td>
<td>31.5</td>
</tr>
<tr>
<td>1992-93</td>
<td>53688</td>
<td>17784</td>
<td>33.1</td>
</tr>
<tr>
<td>1993-94</td>
<td>69751</td>
<td>25307</td>
<td>36.4</td>
</tr>
<tr>
<td>1994-95</td>
<td>82674</td>
<td>29068</td>
<td>35.2</td>
</tr>
<tr>
<td>1995-96</td>
<td>106353</td>
<td>36470</td>
<td>34.3</td>
</tr>
<tr>
<td>1996-97</td>
<td>118817</td>
<td>39248</td>
<td>33</td>
</tr>
<tr>
<td>1997-98</td>
<td>130101</td>
<td>44442</td>
<td>34.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>141604</td>
<td>48979</td>
<td>34.2</td>
</tr>
<tr>
<td>1999-00</td>
<td>158184</td>
<td>54200</td>
<td>34.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>203571</td>
<td>69797</td>
<td>34.3</td>
</tr>
<tr>
<td>2001-02</td>
<td>209018</td>
<td>71244</td>
<td>34.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>255137</td>
<td>86013</td>
<td>33.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>293367</td>
<td>97644</td>
<td>33.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>375340</td>
<td>124417</td>
<td>33.14</td>
</tr>
<tr>
<td>2005-06</td>
<td>425650</td>
<td>150242</td>
<td>35.29</td>
</tr>
<tr>
<td>2006-07</td>
<td>465698</td>
<td>182538</td>
<td>39.19</td>
</tr>
<tr>
<td>2007-08</td>
<td>495845</td>
<td>202017</td>
<td>44.17</td>
</tr>
<tr>
<td>2008-09</td>
<td>524678</td>
<td>204817</td>
<td>39.03</td>
</tr>
</tbody>
</table>

Source: Centre for Industrial and Economic Research, New Delhi
The share of exports of MSMEs sector to total exports ranges from 21.7 in 1984-85 (the lowest) to 39.03 percent in 2008-09 (the highest). The share of MSME’s sector to total exports increased constantly from 23.8 percent during 1980-81 to 27.6 percent during 1989-90 and to 40.17 percent during 2007-08.

It is striking to observe that the share of MSME sector has change between a minimum of 21.7 percent and a maximum of 40.74 percent during period.

The exports of MSMEs sector have increased from Rs.1600 crore in 1980-81 to Rs.7626 crore in 1989-90, registering an increase of 27.6 percent. During the post-liberalization period the share of small scale sector in the total exports has ranged between a minimum of 29.7 percent and maximum of 40.74 percent. The value of exports of MSMEs sector has increased from Rs.9664 crore in 1990-91 to Rs.204817 crore in 2008-09. This provides an evidence of the fact that there has been a marked increase in the exports of MSMEs sector during the period 1980-81 to 2010-11.

**Table No 1.8**

**Contribution of MSMEs in the Gross Domestic Product (GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total industrial production</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>39.74</td>
<td>5.86</td>
</tr>
<tr>
<td>2000-2001</td>
<td>39.71</td>
<td>6.04</td>
</tr>
<tr>
<td>2001-2002</td>
<td>39.12</td>
<td>5.77</td>
</tr>
<tr>
<td>2002-2003</td>
<td>38.89</td>
<td>5.91</td>
</tr>
<tr>
<td>2003-2004</td>
<td>38.74</td>
<td>5.79</td>
</tr>
<tr>
<td>2004-2005</td>
<td>38.62</td>
<td>5.84</td>
</tr>
<tr>
<td>2005-2006</td>
<td>38.56</td>
<td>5.83</td>
</tr>
<tr>
<td>2006-2007</td>
<td>45.62</td>
<td>7.2</td>
</tr>
<tr>
<td>2007-2008</td>
<td>45.24</td>
<td>8</td>
</tr>
<tr>
<td>2008-2009</td>
<td>44.86</td>
<td>8.72</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI

Note: The data for the period up to 2005-06 is for small scale industries (SSI).

Contribution of MSMEs in the Gross Domestic products is is shown in the table No 1.8.Total Industrial product was 39.74 in the year 1999-2000 it increased upto 44.86 in the year 2008-09.The GDP contribution was 5.86 in 1999-2000 it increased 8.72 in 2008-09.The contribution of GDP is always more than 5.7 in this period.
PROSPECTS AND OPPORTUNITIES IN SMALL SCALE INDUSTRIES

Prospects in Small -Scale Industries

a) Contributes almost 40 percent(Table 1.8) of the gross industrial value added in the Indian economy.

b) Creates largest employment opportunities for the Indian population, next only to agriculture.

c) 45-50 per cent of the Indian exports are contributed by Small Scale Industries (SSI) sector.

Product groups where the small scale sector dominates in exports are sports goods, ready-made garments, woolen garments and knit-wear, plastic products, processed food and leather products.

OPPORTUNITIES

The opportunities in the small-scale sector are enormous due to the following factors:

a) Less capital intensive

b) Extensive promotion and support by government.

c) Reservation for exclusive purchase by government

d) Export promotion

e) Growth in demand in the domestic market due to overall economic growth.

The small scale industries occupy a very important position in any economy. Traditionally, they produce certain specialized items for which they enjoy virtual monopoly because of skill and expertise developed over the years. Many items produced in the small-scale industries contributed to large-scale production in no small measure.

However, in a free economy, the small-scale industries will have to face tough and challenging competition from the large-scale industrial sector. In a controlled economy, the small-scale industries are protected from competition from the large-scale sector for their survival and growth; however, they will have to face competition from the large-scale sector in the field of own investment and resources. For this purpose, they will have to take effective measures in the following areas:

Quality of goods/services:

The products of large-scale industries are of high quality and precision. In a
free economy, the products of the small-scale industry compete with those of the
large-scale only if high quality is maintained. To meet the competition from the large-
scale sector, the small-scale industries should get a good share of the export market
for which also high quality products are essential. It would thus be necessary for the
small-scale industrial units to introduce quality control measures. If necessary, they
can enlist the assistance of reputed outside agencies in this regard. In a competitive
environment where low cost quality output is necessary, choice of technology
assumes great importance. In a free economy, the small-scale entrepreneurs should
preferably have a technical background or, at least, an understanding of the technical
processes involved in production.

**Marketing Arrangements:**

Many small-scale units have perished for their inability to sell what they have
produced. This happened because of lack of proper marketing arrangements. In a free
economy, inadequate marketing arrangements would only accelerate the downfall of
small-scale units, as they would have to counter competition from the large-scale
sector, which enjoys ready market for its products. The small-scale units would be
required to conduct systematic and continuous market research and make endeavors
for making tie-up arrangements with the prospective buyers in order that the products
of the small-scale sector may be readily sold.

**Advertisement:**

The products of the large-scale sector are widely advertised in TV, Radio and
Newspapers. The small-scale industrial units suffer resource inadequacy and
consequently most of them cannot advertise their products in mass media. As a result,
the products of the small-scale units are largely unfamiliar and they find it very
difficult to attain their sales goals. But in a free economy, where the small -scale units
will have to thrive by competing with the large-scale sector, the small-scale industries
must make adequate publicity of their products. For publicity, some funds are to be
set aside and although initially the profits may be low, such publicity expenditure will
serve the cause of future profitability.

**Recovery of Receivables:**

The funds of many small-scale industrial units are blocked in receivables. As a
result, recycling of funds is affected and production suffers. In a competitive
environment, it must be ensured that receivable dues are realized with utmost
expedition. The small-scale units will have to make special efforts for collection of their dues for their growth. They may have to utilize the services of factoring companies for the purpose.

**Professionalism in Management:**

Many small scale industrial units have suffered lack of proprietary management. Barring very tiny and small units, management of small-scale industries has become complex. Hence, for managerial efficiency, which is a key for success of small-scale enterprises, the small-scale industrial units are to be managed by the professional managers in order to compete with the large scale sector which is professionally managed.

**Inventory Control:**

Proper Inventory control is an essential pre-requisite for optimum production of an industrial unit. Yet, a large number of small-scale units are not aware of this requirement and as a result, they remain content with a sub-optimal level of production affecting their profitability adversely. It is, therefore, imperative that the small-scale units familiarize themselves with inventory control techniques and introduce them particularly in the context of competition in a free economy from the large-scale sector where modern inventory control techniques are widely adopted. Many small-scale units have become sick for neglecting the above-mentioned areas. The other causes of sickness of small-scale industries are mainly as under:

a) Diversion of funds  
b) Dissension among partners  
c) Shortage of power  
d) Technological obsolescence  
e) Over-dependence on purchases by Government

The small-scale units must properly look after these areas to guard against sickness. India is now largely a free-enterprise economy. In India, despite liberalized economy, the small-scale sector is performing well. The policies of the government are also directed towards the growth of small-scale industries. This would encourage modernization of existing small-scale industries with adoption of appropriate new technologies in the sector and stimulate the growth of new small-scale units.

The government has plans to educate the small-scale entrepreneurs about economics of sale, arrange for up-gradation of skills and technologies and strengthen
the export capabilities for promotion of small scale industries.

In India, the small-scale industries are, therefore, poised for growth and development provided they adopt strategies as mentioned above to overcome competition from the large-scale sector. Thus, the prospects of small scale industries in a free economy are quite encouraging provided the Government plays a supportive role and adequate measures are taken to meet the challenges thrown up by the large scale sector.

PROMOTIONAL SCHEMES

The Small Scale Industries (SSI) constitutes an important segment of the Indian economy in terms of their contribution to the country’s industrial production exports employment and creation of an entrepreneurial base. The Government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policies and central sector programs/schemes, their implementation and related co-ordination to supplement the efforts of the states for promotion and development of these industries in India. The Ministry of small scale industries and ARI were bifurcated into two separate ministries, viz., Ministry of Small-scale Industries and Ministry of Agro and Rural Industries in September, 2001.32

The role of the Ministry of Small Scale Industries is to mainly assist the States in their efforts to promote growth and development of the small scale sector, to enhance their competitiveness in an increasingly marketed economy and generating additional employment opportunities. The specific schemes/programs undertaken by the organizations of the Ministry seek to facilitate/provide one or more of the following:

a) Adequate credit from financial institutions/banks.

b) Funds for technology up-gradation and modernization.

c) Integrated Infrastructural facilities.

d) Modern testing facilities and quality certification laboratories.

e) Access to modern management practices, entrepreneurship development and skill up-gradation through appropriate training facilities.

f) Assistance for better access to domestic and export markets,

g) Cluster-wise measures to promote capacity-building and empowerment
of the units and their collectives, in addition to all or some of the above mentioned supports. The detail study of the promotional schemes and agencies is done in separate chapter

**Role of Women in Small Scale Sector:**

In the third All India census of small scale sector, the participation of women in the small scale sector has been categorized in three roles; some women are owners of enterprises, some managers of enterprises and some employees. The total number of women enterprises in the small scale sector was estimated at 10,63,721 (10.11 per cent). The estimated number of enterprises actually managed by women was 95,141 (9.46 per cent) (as per the fourth all India census of SSI, 2006-07.)

About 13 per cent of the women enterprises were in the registered small scale sector category, the rest being unregistered. Of the enterprises managed by women, 11.5 per cent were in the registered small scale industry category. The share of the units managed by women in terms of employment was 7.14 per cent. The employment generated per Rs.1 lakhs investment in the units managed by women was 2.49. The total number of female employees in the small scale sector is estimated at 33,17,496. About 57.62 per cent of the women were employed in small scale units. (as per the fourth all India census of SSI, 2006-07.)

The proportion of female employees in the total employment in the small scale sector was 13.315 per cent. In the states/union territories of Mizoram, Orissa, Karnataka, Goa, Lakshadweep, Kerala, Tamil Nadu and Pondicherry, the share of women employment was significantly higher (more than 20 per cent), compared with the total employment in the respective states. (as per the fourth all India census of SSI, 2006-07.)

In India, women entrepreneurs have been in business for quite some time and achieved remarkable success; however, their number is still small. One of the reasons for this is the initial hesitation and inhibition, which emanates from the traditional and societal perception of the role of women. Like any other entrepreneurs, a new women entrepreneur has to compete with those who are already well established. Therefore, women entrepreneurs have to not only face the gender insensitivity and bias prevalent in the society but also compete against established competition. In its industrial policy the Government of India has laid considerable emphasis on the promotion of women entrepreneurship, particularly first generation women entrepreneurs, through various
training and support services. Special attention is given by organizing exclusive entrepreneurship development programs for women. In these programs, the trainees/entrepreneurs are exposed, through demonstration and training, to the manufacture of a variety of products. Thus, many women are trained every year by the Institutes of the Ministry. The available feedback shows that these women have not limited themselves to the conventional ventures but also set up hi-tech industries in the fields of information technology, engineering, graded grey iron, non-ferrous casting and sophisticated electronic equipment, etc. Tool rooms have started designing special courses for women in the field of tool engineering. Voluntary organizations in the country are also doing commendable work in the field of women entrepreneurship development. Associations of women entrepreneurs have also come up and are doing remarkably well in some states.33

The Plan Schemes of Ministry of small scale industries are for the development of small scale sector in the country and the main focus is to provide a wide range of services and facilities required for accelerating the growth of small scale sector. In case of programs like entrepreneurial development program, Management Development Program, National award for entrepreneurial Development (Quality Products) and Trade Related Entrepreneurship Assistance and Development (TREAD) Program for Women, etc., the necessary guidelines have been issued and specific reservations provided for women.

GENERAL PROBLEMS OF SMALL SCALE INDUSTRIES

The problems offsetting small scale and cottage industries can broadly be divided in two major groups- internal and external. Internal problems are those which are not influenced by external forces; mainly crop up from within the industry and can be controlled internally. External problems on the other hand, are those which are the outcome of external factors and are beyond the control of a particular unit.34 There is a broad set of problems which almost all the small enterprises face in different degrees. Then there are product specific, location-specific or ownership-specific factors which affect different enterprises differently. Further, different sub-segments within the small scale sector have their own specific problems and issues.

The following problems are general and common to all the small scale units and the individual management of the units plays a major role in reducing the problems and constraints. The major problems of the small sector may be grouped
under the following heads:

(i) **Execution Problems:**

(a) **Planning stage:**

Like any industrial unit a small scale unit requires careful project planning. It requires both economic and technical feasibility studies and market potential survey. Most of the individual small scale sector promoters have inadequate technical expertise and know-how, and are not financially sound enough to engage specialized technical consulting firms which are often expensive by small scale standards. Further, the small scale units have local orientation and the geographical location may not necessarily be favorable. Cottage and tiny units are least mobile.

At the initial planning stage self assessment of the financial requirements may be widely off the mark. In the middle of the project implementation stage discovery of inadequacy of project outlay or cost overruns may force the promoters to compromise on other items of expenditure which may sow the seeds of sickness right in the embryonic stage. The shortage of resources may also compel the promoters to settle for low technology capital equipment which may confine the competitiveness of the enterprise in the operational stage. In the same fashion inability to conduct scientific or reliable market potential survey may cause unrealistically high level of demand estimation. Such limitations are most common in individual proprietorships or partnerships where one or few people take decisions on the basis of their own limited expertise. Planning is the pillar of success.

(b) **Implementation stage**

The efficiency and effectiveness with which a small scale project is implemented determine the sunk costs and the gestation period of the project. Faulty implementation often leads to cost and time over-runs which increase the project cost and the gestation period. In most small scale units, project implementation is in the hands of the owner-promoters who sometimes, due to lack of professional expertise, may not be able to complete the project in time. This is the stage where funds are mobilized and plant and equipment installed. Shortfalls in fund mobilization may make the unit uneconomic and raise its expenditure. Similarly, delay in the availability of technical man-power may prolong the implementation stage. Time-overruns also involve financial burden as the overheads, right from the time of establishment, start imposing fixed costs which may strain the financial position of
the enterprise in the later stages.

(c) Operational stage

During the operational stage small scale units face a large variety of problems. These problems relate to the diverse aspects of the functioning of the enterprise including management, finance, marketing, man-power technology and other related areas. Quality and effectiveness of management generally play a great role in preventing or reducing a number of problems. These problems cause sickness in the small scale units which may eventually lead to their closure. A large number of small scale units are known to have closed down within a few years of their establishment.

(ii) Financial Problems:

Small units have a weak capital base which obstructs their efforts to upgrade technology, introduce innovative products or even expand existing production. An equally serious problem is that of working capital which gets diminished as the working capital cycle lengthens. Small firms generally have weak bargaining power via-a-vis distributors or bulk buyers (like industrial firms) who are not only able to flow supplier credit terms in their favor but also often default on timely payment. This raises costs, reduces competitiveness and squeezes profits.35

A number of financial institutions like state financial corporations, state industrial development banks, small industries development bank of India and scheduled commercial banks are there to cater to the financial requirements of the small industries on a priority basis. However, procedures are bureaucratic, sanction time is long, amount dispersed is often less than the requirement and above all the effective rate of interest is high. Moreover the repayment conditions are generally rigid.

The flow of credit to the SSI sector is affected because of “a weak financial base, which eventually prompts the entrepreneurs to bring in funds by way of loan rather than capital, improper maintenance of books of account, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institutions etc. high mortality rate, high administrative cost of lending to small units and the concessional interest rate does not basically motivate the financial institutions to invest in SSI units.” 36 The intensity of the financial problems is commonly observed to be inversely proportional to the size of the small scale unit.
(iii) Marketing Problems:

Market is the ultimate destination of all industrial concerns whether small or big where the produced are being bought and sold. Marketing is a broad process of linking the gap between the producer and consumer. Most small scale units do not have separate marketing divisions as a result of which their marketing effort is weak. These units are generally not in a position to afford modern advertising consumer research, market potential surveys, product adaptations and measures for distribution channels development. The weakness of the marketing function causes the following types of problems.

a) Lack of product awareness among the consumers.
b) Weak bargaining position of small scale industries producers Vis-à-vis distributors which are able to dictate terms of sale.
c) Offer of products unmatched to consumer needs or requirements.
d) Recurrent stock-out position or excess-supply situation.
e) High proportion of unbranded products leading to loss of market power.

These problems lead to weak demand and un-remunerative prices to producers. Most of the profit margins are absorbed by the members of distribution channels. The marketing problems are worse for the seasonal products. As most of the small scale units have a local market, heavy selling pressure and local competition keep prices down. Because of the financial limitations, the units are unable to build buffer or inventory stocks. It is for this reason that a number of government institutions provide marketing support to small scale units in various product areas.

(iv) Production Problems:

Small scale units face a number of production problems due to which the supply flow is interrupted. The production set-backs also cause wastage and rise of per unit cost. These problems arise from a variety of sources. Some of the main sources of production problem are the following.

a) Adequate and timely availability of required raw materials that also at reasonable prices affects the entire operations of small scale industrial sector. Because of their smallness and weak financial base and poor bargaining power small scale industrial units required to utilize the services of middlemen to get raw materials on credit. Such an arrangement results in higher costs due to the
high margins of the middlemen.  

b) Lack of availability of skilled labour, particularly in remote local areas, creates production problems. Quite often workers leave the unit without prior notice leading to disruption in production.

c) Small units commonly use traditional or obsolete technology. As a result the repair and maintenance problems are common. Frequent plant breakdowns cause interruption in the flow of production.

d) Chronic power shortage in the country affects small scale units in a larger measure. These units are generally not able to afford captive power generation systems. Frequent power cuts lead to production stoppages.

These problems affect market supplies, cause more wastage and increase per unit costs. These also lead to under-utilization of productive capacity and deprive the units of economies of scale. These factors together make the units still more uncompetitive. According to the Report of the Informal Group of the Planning Commission (1987), capacity utilization in the small scale sectors was an almost 30 per cent.

(v) **Infrastructural Problems**

Infrastructural adequacies are necessary to subsist in order to aid the smooth and continuous economic growth in general and industrial growth in particular. Industrial production requires not only machinery and equipment but also skilled manpower, management, energy, banking and insurance facilities, marketing facilities, transport services which include railways, roads and waterways, communication facilities, etc. Industrial development is the effect for which infrastructure is the cause.  

(vii) **Power Shortage**

Power and electricity is the basic infrastructure around which all economic activities moves. The degree of economic growth is highly related with the generation and consumption of electric power. Growth of industry in a particular region depends upon adequate and uninterrupted power supply. Power shortage, power shutdown and power cuts could paralyze industrial activity, throw thousands of workers out of job and cause inconvenience to consumers.

(viii) **Labour Problems:**

The employer-employee relations in a small organization are expected to be
close, yet these units are prone to greater labour troubles. Labor problems spoil work environment, reduce productivity and cause disruption in production. These problems also account for fall in quality and increase in production costs. Such problems are mainly caused by:

a) Seasonal migration of workers to rural areas.
b) Tactless handling of worker problems.
c) Lack of worker facilities and safety devices at the workplace.
d) Low or delayed payment to workers.
e) Interpersonal problems and disputes.
f) Low educational status of workers and lack of training.

Static labour skills often deter the units to modernize or upgrade technology. The level of compliance of the small units to various labor laws is quite low and in tiny and cottage units, there are hardly any labor records. Modern small scale units are also affected by the problems of trade unionism. Skilled and competent workers in small units are commonly observed to seek work in larger organizations which offer better wages, facilities and career prospects.

(ix) Managerial Problems:

A vast majority of small scale units are proprietorship or partnership concerns with little skills in professional management. Relatively few private limited companies with small scale sector tag are also closely-held and family-run enterprises with little better managerial skills. Poor management is in fact responsible for most of the internal problems as discussed above. Organizational mission, vision, planning and strategy are hardly reflected in the operational or functional aspects. Absence or lack of managerial perspective is like sailing without oars and the enterprise is most vulnerable to the vagaries of changing market conditions.

There exist a large number of external factors which are beyond the control of the small scale sector owners or managers and which create many problems for the enterprises. These factors are related to business environment—both internal and external. Main adverse factors beyond the control of the small units are the following.

a) Infrastructural bottlenecks;
b) Stringent lending policies of financial institutions;
c) Government control on prices and distribution;
d) Burdensome taxation;
e) Bureaucratic and procedural problems;
f) Competition from large enterprises; and
g) Liberal imports.

Some of these problems affect non-small scale units, as well as the small scale units because of their resource limitations are more vulnerable to these factors and have limited capacity to withstand such shocks.

(x) Quality Problems:

The small scale sector faces unprecedented quality challenges at the present time. While there is a quality wave among the large units to gain entry in the foreign markets and to response to the quality expectations of the domestic consumers, technological obsolescence and resource constraints are dogging most of the small scale units, particularly in the tiny sector. At present, the Bureau of Indian Standards (BIS) has about 150 products for which compliance with ISI certification norms is mandatory. Some of the popular product groups are LPG cylinders, food coloring agents, galvanized iron pipes, oil pressure stoves, GLS lamps, electrical accessories, pressure cookers and batteries. Due to non-compliance with quality standards, a large number of small scale units are losing their market to larger units in these areas both at home and abroad. Quality standardization requires quality awareness, professionalism and increased investment in new processes and products. The BIS assists small scale units in pre-certification training and trial assessment but the managements of a large number of units are generally not able to make a proper benefit-cost-analysis of quality certification.

1.12 Opportunities and Constraints of Globalization from the View Point of MSMES

In addition to the above general problems small scale units at present face globalization challenges. Some of the challenges threaten the very existence of the small and vulnerable units. The government has been responding though slowly to the emerging challenges before the small scale sector through a series of compensatory measures.41

Concept of Globalization

Globalization may be defined as the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Therefore, it signifies
internationalization plus liberalization, through which the world has become a small global village.

**Opportunities to small scale industry**

**Exposure to foreign markets:** Globalization has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

**Flow of foreign investment and technology:** The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes, universities etc.

**Emerging areas of business**

MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillaryization and many new technologies like biotechnology, nanotechnology etc which are attractive for the new generation MSME entrepreneurs.

**Less Govt. Intervention**

As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.

**Employment generation**

Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of infusion of technology, capital and innovative marketing techniques etc.
Better performance by the MSMEs

Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and they have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance.

Better Customer Satisfaction

As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in best possible way.

Short and long term capital

In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market.

Export contribution

The products produced by MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the results of fourth MSME census (2006-07), this sector has registered an export earning of Rs 202017 crores in 2007-08.

Removal of Regional disparity

People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of micro, small and medium enterprises in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

CONSTRAINTS ON THE MSMES

Process of globalization has resulted in some serious constraints on the MSMEs

Financing Problems

Financing has always been a major problem for the small and medium industries in India. The MSMEs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions.
Table No 1.9

Flow of credit from commercial banks to MSME sectors

<table>
<thead>
<tr>
<th>Year</th>
<th>Net bank credit (in crores)</th>
<th>Annual Growth (percent)</th>
<th>Credit to MSME (in crores)</th>
<th>Annual Growth (percent)</th>
<th>MSME percent Net Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>192424</td>
<td>----</td>
<td>29175</td>
<td>----</td>
<td>15.17</td>
</tr>
<tr>
<td>1995-96</td>
<td>228198</td>
<td>18.75</td>
<td>34246</td>
<td>17.12</td>
<td>14.98</td>
</tr>
<tr>
<td>1996-97</td>
<td>245999</td>
<td>17.89</td>
<td>38196</td>
<td>11.4</td>
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</tr>
<tr>
<td>1997-98</td>
<td>297265</td>
<td>21.2</td>
<td>45771</td>
<td>19.6</td>
<td>15.4</td>
</tr>
<tr>
<td>1999-00</td>
<td>398205</td>
<td>17.4</td>
<td>57035</td>
<td>10.46</td>
<td>14.31</td>
</tr>
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<td>2000-01</td>
<td>467206</td>
<td>17.33</td>
<td>60141</td>
<td>5.43</td>
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</tr>
<tr>
<td>2001-02</td>
<td>535063</td>
<td>14.56</td>
<td>67107</td>
<td>11.65</td>
<td>12.53</td>
</tr>
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<td>2002-03</td>
<td>668576</td>
<td>25.04</td>
<td>64707</td>
<td>(-)3.60</td>
<td>9.67</td>
</tr>
<tr>
<td>2003-04</td>
<td>763855</td>
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<td>71209</td>
<td>10.04</td>
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<td>83498</td>
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<td>1350467</td>
<td>38.96</td>
<td>101285</td>
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<tr>
<td>2006-07</td>
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<td>127323</td>
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<tr>
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<td>4.09</td>
<td>213539</td>
<td>67.72</td>
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<td>2008-09</td>
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<td>256127</td>
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<td>2009-10</td>
<td>2716507</td>
<td>19.85</td>
<td>364012</td>
<td>42.1</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Source: Annual Report 2010-11 Govt. of India, Ministry of Micro, Small and Medium Enterprises

As the table No 1.9 shows, the annual growth rate in terms of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMEs show fluctuating trend. In 2002-03, the annual growth rate of credit to MSMEs showed a negative result. All the Scheduled banks offered credit to SSI sector to the tune of Rs 64707 crores which was less than that of the last year (2002-03) by Rs 400 crores. Another noteworthy year is 2007-08 which witnessed high annual growth rate in terms of credit to MSME Sector (67.7 percent). The annual growth rate of credit offered by Public Sector Banks in 2008 over 2007 is 47.4 percent, for Private Banks 257.1 percent and for foreign banks 67.7 percent. This abnormally high growth rate was due to re-classification of MSEs as per MSMED Act, 2006. However, annual growth rate in terms of Net Bank Credit is extremely low (4.09 percent). The annual growth rate of percentage of Net Bank Credit offered as credit to MSMEs has not shown sufficient increase even after re-classification of MSEs as per MSMED Act, 2006.
The Scheduled banks do not consider the MSMEs preferred area of investment. Traditionally, banking sector considers Small industries a risky field of investment due to reasonably low growth rate of the small firms, firms following informal business practices, inability of the MSME entrepreneurs to maintain collateral securities, lack of creditworthiness, relatively high processing cost, and poor flow of information. Moreover, incidence of Non-Performing Assets (NPA) in Small and Medium Sector is about 15 percent compared to about 9 percent in large business houses.

**Extreme competition**

The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

**Poor Technology Base**

There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

**Lack of infrastructure**

Infrastructural lacking includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit. They have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production. The MSMEs producing beverages, tobacco products, medicines etc face the problem of inadequate water supply. As per the study conducted by Keshab Das and Sebastian Morris (2001), out of 1063 surveyed firms, 716 firms (more than sixty-seven percent) confessed that they have serious infrastructural problems.

**Lack of Skilled workers**

Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.
Marketing and Distribution Problems

Marketing is probably the most neglected and less explored problem for Micro and Small firms. Most of them do not have any well formulated marketing strategy, market research programmes, innovative advertisement techniques etc. Most of the MSMEs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company).

Delayed payments

The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

Mindset Problems

The mindset of the many MSME entrepreneurs has not yet changed. They still expect protection policies and preferential treatment for the MSMEs. Fortunately, this tendency is low in the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

Outflow of wealth

Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the MSMEs. The MNCs use domestic wealth, infrastructure, and local unskilled workers at a lower cost and repatriate huge profits to their own countries.

More prone to global fluctuations

A well liberalized economy reacts more sharply with the changes in global market. The demand and supply would be determined by global fluctuations and not by the needs of the consumers.

Social welfare areas neglected

The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education etc which require huge investment but generate less and time taking return on investment, would be neglected.
Gradual withdrawal of Reservation Policy

Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms.

1.13 Performance Analysis of Micro, Small and Medium Enterprises (MSMEs) in Pre and Post-Globalization Period

Table No 1.10

<table>
<thead>
<tr>
<th>Pre Globalisation Period</th>
<th>Post Globalisation Period</th>
</tr>
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<tbody>
<tr>
<td><strong>Year</strong></td>
<td><strong>Units</strong> (Million)</td>
</tr>
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<td>74-75</td>
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<td>77-78</td>
<td>0.67</td>
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<td>90-91</td>
<td>2.07</td>
</tr>
<tr>
<td>91-92</td>
<td>2.31</td>
</tr>
<tr>
<td>92-93</td>
<td>2.59</td>
</tr>
</tbody>
</table>

AAGR: 9.36, 19.45, 7.25, 18.86

Source: Annual Report 2010-11 Govt. of India, Ministry of Micro, Small and Medium Enterprises

Note: 1) Data up to 2005-06 is only for SSI sector. Subsequent to 2005-06, data related to MSME sector is being compiled.
2) Export data for 2008-09 and 09-10 are not available
3) Data for 2007-08, 08-09 and 09-10 are projected
4) AAGR refers to Annual Average Growth Rate
The Period from 1973-74 to 1989-90 is considered pre globalization period and from 1990-91 to 2009-10 post globalization period. Annual Average Growth Rate (AAGR) has been considered a major statistical measure to compare performance of MSMEs during Pre and Post Liberalization period. AAGR in respect of No of units of MSMEs, Production and Export is lower in Post Liberalization period compared to Pre Globalization period. In case of Employment, Post Liberalization AAGR is mildly high than that of Pre Globalization AAGR. Fall in growth rate in number of units of SSIs in post reforms period may be due to disappearance of ‘protection seekers’. Though the growth rate of in case of employment is mildly high in post reforms period, the growth rate is not satisfactory. This may be due to adoption of capital-intensive technology by the small firms to some extent during the post globalization period. Thus, the performance of MSMEs in Globalization period has not been satisfactory.11

**NUMBER OF SSI UNITS**

The working number of units in small scale sector in Pre and Post Globalization Period in India is show in the following table:

**Table No 1.11**

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
<th>%Increase to prev. year</th>
<th>Year</th>
<th>Units</th>
<th>%Increase to prev. year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>0.42</td>
<td>-</td>
<td>1992-93</td>
<td>7.35</td>
<td>4.11</td>
</tr>
<tr>
<td>1974-75</td>
<td>0.5</td>
<td>19.05</td>
<td>1993-94</td>
<td>7.65</td>
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<td>0.55</td>
<td>10</td>
<td>1994-95</td>
<td>7.96</td>
<td>4.05</td>
</tr>
<tr>
<td>1976-77</td>
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<td>7.27</td>
<td>1995-96</td>
<td>8.28</td>
<td>4.02</td>
</tr>
<tr>
<td>1977-78</td>
<td>0.67</td>
<td>13.56</td>
<td>1996-97</td>
<td>8.62</td>
<td>4.11</td>
</tr>
<tr>
<td>1978-79</td>
<td>0.73</td>
<td>8.96</td>
<td>1997-98</td>
<td>8.97</td>
<td>4.06</td>
</tr>
<tr>
<td>1979-80</td>
<td>0.81</td>
<td>10.96</td>
<td>1998-99</td>
<td>9.34</td>
<td>4.12</td>
</tr>
<tr>
<td>1980-81</td>
<td>0.87</td>
<td>7.41</td>
<td>1999-00</td>
<td>9.72</td>
<td>4.07</td>
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<tr>
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<td>2000-01</td>
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<td>4.01</td>
</tr>
<tr>
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<td>10.42</td>
<td>2001-02</td>
<td>10.52</td>
<td>4.06</td>
</tr>
<tr>
<td>1983-84</td>
<td>1.16</td>
<td>9.43</td>
<td>2002-03</td>
<td>10.95</td>
<td>4.09</td>
</tr>
<tr>
<td>1984-85</td>
<td>1.24</td>
<td>6.9</td>
<td>2003-04</td>
<td>11.4</td>
<td>4.11</td>
</tr>
<tr>
<td>1985-86</td>
<td>1.35</td>
<td>8.87</td>
<td>2004-05</td>
<td>11.86</td>
<td>4.04</td>
</tr>
<tr>
<td>1986-87</td>
<td>1.46</td>
<td>8.15</td>
<td>2005-06</td>
<td>12.34</td>
<td>4.05</td>
</tr>
<tr>
<td>1987-88</td>
<td>1.58</td>
<td>8.22</td>
<td>2006-07</td>
<td>26.01</td>
<td>110</td>
</tr>
<tr>
<td>1988-89</td>
<td>1.71</td>
<td>8.23</td>
<td>2007-08</td>
<td>27.28</td>
<td>8.8</td>
</tr>
<tr>
<td>1989-90</td>
<td>1.82</td>
<td>6.43</td>
<td>2008-09</td>
<td>28.52</td>
<td>4.4</td>
</tr>
<tr>
<td>1990-91</td>
<td>6.79</td>
<td>273.08</td>
<td>2009-10</td>
<td>29.81</td>
<td>4.5</td>
</tr>
<tr>
<td>1991-92</td>
<td>7.06</td>
<td>3.98</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<tr>
<td>AAGR</td>
<td>9.36</td>
<td>--</td>
<td>AAGR</td>
<td>13.027</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI.
Note: AAGR = Annual Average Growth Rate or Exponential Growth Rate.

It is cleared from the above table that the Annual Average Growth Rate of number of units in the pre-liberalisation period, from 1973-74 to 1989-90 was 9.36 percent and in post-liberalisation it was 13.027 percent. In pre-liberalized period, the yearly growth rate was higher than average growth rate in the initial years and from 1984-85 to 1989-90; the yearly growth rate was less than average growth rate. In 1989-90, the yearly growth rate was least in the pre-liberalisation period.

Table No 1.12
Production Pre and Post Globalisation period (Production= Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (current Prices)</th>
<th>% Increase to prev. year</th>
<th>Year</th>
<th>Production (current Prices)</th>
<th>% Increase to prev. year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>7200</td>
<td>-</td>
<td>1990-91</td>
<td>78802</td>
<td>-40.44</td>
</tr>
<tr>
<td>1974-75</td>
<td>9200</td>
<td>27.78</td>
<td>1991-92</td>
<td>80615</td>
<td>2.3</td>
</tr>
<tr>
<td>1975-76</td>
<td>11000</td>
<td>19.57</td>
<td>1992-93</td>
<td>84413</td>
<td>4.71</td>
</tr>
<tr>
<td>1976-77</td>
<td>12400</td>
<td>12.73</td>
<td>1993-94</td>
<td>98796</td>
<td>17.04</td>
</tr>
<tr>
<td>1977-78</td>
<td>14300</td>
<td>15.32</td>
<td>1994-95</td>
<td>122154</td>
<td>23.64</td>
</tr>
<tr>
<td>1979-80</td>
<td>21600</td>
<td>36.71</td>
<td>1996-97</td>
<td>167805</td>
<td>13.6</td>
</tr>
<tr>
<td>1980-81</td>
<td>28100</td>
<td>30.09</td>
<td>1997-98</td>
<td>187217</td>
<td>11.57</td>
</tr>
<tr>
<td>1981-82</td>
<td>32600</td>
<td>16.01</td>
<td>1998-99</td>
<td>210454</td>
<td>12.41</td>
</tr>
<tr>
<td>1982-83</td>
<td>35000</td>
<td>7.36</td>
<td>1999-00</td>
<td>233760</td>
<td>11.07</td>
</tr>
<tr>
<td>1983-84</td>
<td>41600</td>
<td>18.86</td>
<td>2000-01</td>
<td>261297</td>
<td>11.78</td>
</tr>
<tr>
<td>1984-85</td>
<td>50500</td>
<td>21.39</td>
<td>2001-02</td>
<td>282270</td>
<td>8.03</td>
</tr>
<tr>
<td>1985-86</td>
<td>61200</td>
<td>21.19</td>
<td>2002-03</td>
<td>314850</td>
<td>11.54</td>
</tr>
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<td>1986-87</td>
<td>72300</td>
<td>18.14</td>
<td>2003-04</td>
<td>364547</td>
<td>15.78</td>
</tr>
<tr>
<td>1987-88</td>
<td>87300</td>
<td>20.75</td>
<td>2004-05</td>
<td>429796</td>
<td>17.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>106400</td>
<td>21.88</td>
<td>2005-06</td>
<td>497842</td>
<td>15.83</td>
</tr>
<tr>
<td>1989-90</td>
<td>132300</td>
<td>24.34</td>
<td>2006-07</td>
<td>585112</td>
<td>17.53</td>
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<td>AAGR</td>
<td>19.45</td>
<td></td>
<td></td>
<td>AAGR</td>
<td>13.57</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI
AAGR = Annual Average Growth Rate or Exponential Growth Rate. Since 2001-02, Production figures are at 2001-02 prices.

It is cleared from the above table No 1.12 that the Annual Average Growth Rate of production in the pre-liberalisation period, from 1973-74 to 1989-90 was 19.45 percent and in post-liberalisation it was 13.57 percent. In pre-liberalised period, the yearly growth rate was decreasing in the initial years and from 1973-74 to 1978-79; the yearly growth rate was fluctuating from 1980-81 to 1983-84, after that it was shown increasing trend except in 1986-87. In the post-liberalisation period, in...
1990-91 the yearly growth rate was very low, it was negative and after that it was showed increasing trend from 1991-92 to 1994-95. The yearly growth rate was showing decreasing trend from 1995-96 to 2002-03 except in 1998-99 and 2001-02. Most of the time, the yearly growth rate was less than average growth rate. The production was increasing in the study period but the average and yearly growth rate was higher in pre- liberalised period than post liberalised period.

EMPLOYMENT

In India, the major argument for promoting small scale sector is that the small enterprises provide avenues for gainful employment. The performance of small scale sector in creating employment opportunities is really a matter of great interest. The following table provides the information of small scale sector on the growth of employment

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (%) Increase to prev. year</th>
<th>Year</th>
<th>Employment (%) Increase to prev. year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>3.97</td>
<td>1990-91</td>
<td>15.83</td>
</tr>
<tr>
<td>1974-75</td>
<td>4.04</td>
<td>1991-92</td>
<td>16.6</td>
</tr>
<tr>
<td>1975-76</td>
<td>4.59</td>
<td>1992-93</td>
<td>17.48</td>
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<tr>
<td>1976-77</td>
<td>4.98</td>
<td>1993-94</td>
<td>18.26</td>
</tr>
<tr>
<td>1977-78</td>
<td>5.4</td>
<td>1994-95</td>
<td>19.14</td>
</tr>
<tr>
<td>1978-79</td>
<td>6.38</td>
<td>1995-96</td>
<td>19.79</td>
</tr>
<tr>
<td>1979-80</td>
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<td>20.59</td>
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<td>21.32</td>
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<td>1981-82</td>
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<td>1998-99</td>
<td>22.06</td>
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<td>1982-83</td>
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<td>1999-00</td>
<td>22.91</td>
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<td>1983-84</td>
<td>8.42</td>
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<td>24.09</td>
</tr>
<tr>
<td>1984-85</td>
<td>9</td>
<td>2001-02</td>
<td>25.23</td>
</tr>
<tr>
<td>1985-86</td>
<td>9.6</td>
<td>2002-03</td>
<td>26.37</td>
</tr>
<tr>
<td>1986-87</td>
<td>10.14</td>
<td>2003-04</td>
<td>27.53</td>
</tr>
<tr>
<td>1987-88</td>
<td>10.7</td>
<td>2004-05</td>
<td>28.76</td>
</tr>
<tr>
<td>1988-89</td>
<td>11.3</td>
<td>2005-06</td>
<td>29.99</td>
</tr>
<tr>
<td>1989-90</td>
<td>11.96</td>
<td>2006-07</td>
<td>31.25</td>
</tr>
</tbody>
</table>

AAGR = Annual Average Growth Rate or Exponential Growth Rate

It is cleared from the above table No 1.13 that the Annual Average Growth Rate of employment in the pre- liberalisation period, from 1973-74 to 1989-90 was 7.25 percent and in post- liberalisation it was 4.26 percent. In pre- liberalised period, the yearly growth rate was more than average growth rate in the initial years and from 1973-74 to 1978-79; after that the yearly growth rate was too much decreased from
1978-79 to 1989-90, it was fluctuate between 5.02 percent and 6.89 percent. In the post-liberalisation period, in 1990-91 the yearly growth rate was very high than average growth rate. After that the yearly growth rate was fluctuated from 1991-92 to 2003-04. Most of the time, the yearly growth rate was less than average growth rate. In the last seven years, the annual growth rate was decreasing. The employment was increasing during the study period but the average and yearly growth rate was higher in pre-liberalised period than post liberalised period.

**EXPORTS**

In the context of liberalization and globalization of Indian economy, the performance of small scale sector in the field of exports needs a closer look. The exports from small scale sector found to be higher from the total export. The exports of small scale sector are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>% Increase to prev. year</th>
<th>Year</th>
<th>Exports</th>
<th>% Increase to prev. Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>400</td>
<td>-</td>
<td>1990-91</td>
<td>9664</td>
<td>27.16</td>
</tr>
<tr>
<td>1974-75</td>
<td>500</td>
<td>25</td>
<td>1991-92</td>
<td>13883</td>
<td>43.66</td>
</tr>
<tr>
<td>1975-76</td>
<td>500</td>
<td>0</td>
<td>1992-93</td>
<td>17784</td>
<td>28.1</td>
</tr>
<tr>
<td>1976-77</td>
<td>800</td>
<td>60</td>
<td>1993-94</td>
<td>25307</td>
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</tr>
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<td>1977-78</td>
<td>800</td>
<td>0</td>
<td>1994-95</td>
<td>29068</td>
<td>14.86</td>
</tr>
<tr>
<td>1978-79</td>
<td>1100</td>
<td>37.5</td>
<td>1995-96</td>
<td>36470</td>
<td>25.46</td>
</tr>
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<td>1200</td>
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<td>1996-97</td>
<td>39248</td>
<td>7.62</td>
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<td>1980-81</td>
<td>1600</td>
<td>33.33</td>
<td>1997-98</td>
<td>44442</td>
<td>13.23</td>
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<td>10</td>
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<td>--</td>
<td>AAGR</td>
<td>17.56</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Ministry of Micro, Small and Medium Enterprises, GOI.

AAGR = Annual Average Growth Rate or Exponential Growth Rate.

It is cleared from the above table No 1.14 that the Annual Average Growth Rate of exports in the pre-liberalisation period, from 1973-74 to 1989-90 was 18.66 percent and in post-liberalisation it was 17.56 percent. In pre-liberalised period, the yearly growth rate was too much fluctuating; it was sometimes very high than average
growth rate. In 1976-77, the yearly growth rate was 60 percent. It was highest during the pre- liberalisation. 1978-79 to 1984-85 the AAGR was yearly increasing or decreasing, in 1982-83 it was on the lowest peak and showed negative trend. After this from 1985-86 to 1989-90, the yearly growth rate was increasing and reached at 38.18 percent. In the post- liberalisation period, from 1990-91 the yearly growth rate was changed its trend yearly, in one year its trend was increasing and than next subsequent year the trend was decreasing. It was least in 2001-02 and highest in 1991-92. The exports were increasing during the study period but the average and yearly growth rate was higher in pre- liberalised period than post liberalised period.

CONCLUSION

In this chapter, the development of Small scale industry in India is analysed. The changing concept of SSI is studied under the various five year plan period. The government policy on SSI is considered. The SSIs today constitute a very important segment of the Indian economy as they help in dispersal of industries, rural development, and the decentralization of economic power. They also play a key role in the development of Indian economies with their effective, efficient, flexible and innovative entrepreneurial spirit. An attempt has been made to analyse the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between Pre- and Post – Globalization periods reveals that the “globalization” had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. A fall in the rate of growth of number of units and employment generation in post liberalization period is a matter of serious concern for the policy makers and planners. The result showed that globalization is not so benefitted on growth front. To conclude, that the recent trend of growth of SSI sector showed the trust of Indian economy on globalization and liberalisation, which has lacked to render a positive impact on the growth of Indian Small Scale Sector.

The importance of SSI is accepted by all. SSI plays vital role in Indian economy. It makes positive impact on Indian economy. It generates the employments on a large scale. It contributes remarkable in the exports of India. It makes From the foregoing discussion, it is understood that the small scale units developed in the country with the help of various promotional agencies and schemes. The role of small scale industry is important in the Indian economy.
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