MODULE 5: MICRO AND SMALL ENTERPRISES
SMALL SCALE INDUSTRIES

- Definition;
- Characteristics;
- Need and rationale:
- Objectives;
- Scope; role of SSI in Economic Development.
- Advantages of SSI Steps to start an SSI - Government policy towards SSI;
- Different Policies of S.S.I.; Government Support for S.S.I. during 5 year plans,
- Impact of Liberalization,
- Privatization,
- Globalization on S.S.I.,
- Effect of WTO/GATT Supporting Agencies of Government for S.S.I
- Meaning; Nature of Support; Objectives; Functions; Types of Help; Ancillary Industry and Tiny Industry (Definition only).

Definition:

- An **industrial undertaking** in which **investment** in fixed assets in plant and machinery, whether held in ownership or on lease in fixed assets in plant and machinery whether held ownership terms or on lease or by hire purchase, **does not exceed Rs.100 lakh** is treated as a small-scale industry.

Characteristics of Small Scale Industries

(1)A small scale industry is generally a one man show even in cases where the small units are run by a partnership firm or a company; the activities are mainly carried out by one of the partners or directors.

(2)In SSIS the owner himself is a manager also and these units are managed in a personalized fashion. the owner gas not only the first hand knowledge of the ongoing business of the firm nut also takes effective participation in all matters of business decision taking

(3)The SSIs have smaller gestation period as compared to larger SSIs that is the period after which the return of investment starts.

(4)Scope of SSI is generally localized catering the needs of local and regional demands. (5)SSIs can be located anywhere use indigenous resources subject to the availability of these resources like raw material labor etc.

(6)SSIs are fairly labor intensive with comparatively smaller capital investment as small as 600-700 rupees for an artisan and his family to begin with than the larger units.

(7) The development of the small scale industries in rural areas promotes balanced regional development due to the decentralization and utilization local resources and also prevents influx of job seekers from cities and urbanization.

(8)The small scale industries are more susceptible to change, highly reactive and receptive to socio-economic conditions.

Rationale of small scale industries

- The rationale of small scale industry established which is based on the industrial policy resolution(IPR) of 1956 formulated by the government which states "they provide immediate large scale employment ,offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilization of unutilized resources of capital and skill "
- can be broadly classified into four categories as arguments
  (1)Employment argument
  (2)Equality argume nt
  (3) Decentralization
  (4) Latent resources argument

1) Employment argume nt: **Arguments:**

(i)That they have a potential to create immediate large scale employment opportunities. which use of more of labor per unit than investment

(ii)That the employment- generating capacity of small sector is eight times than that of large sector as they are labor intensive

Thus the employment argument becomes an output argume nt (ii)Equality argume nt: **Arguments:**

i)That they ensure a more equitable distribution of the national income and wealth due to the widespread nature of the SSIs as compared to large scale units ,more labour intensive than large units their decentralization and dispersal to rural and backward areas and provide more employment opportunities to the unemployed

3) Decentralization argume nt Arguments:

(i)That it emphasizes the necessicity of regional dispersal of industries to promote balanced regional development in the country

(ii)That it helps to tap local resources such as, materials, idle savings, local talents by starting small enterprises in a group of villages thereby improving the standard of living in the backward villages. One Example is the economy of Punjab which has more number of SSIs as compared to Maharashtra.

4. Latent resource argument: Arguments: That the small enterprises are capable of mopping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability.

Objectives:

(i)To generate immediate and large scale employment opportunities with relatively low investment

(ii)To eradicate unemployment problem in our country

(iii)To encourage the dispersal of industries all over country covering small towns, villages and economically lagging regions.

(iv) To bring backward areas to main stream of national development

(v)To promote regional development of the whole country

(vi)To ensure more equitable distribution of national income.

(vii)To encourage effective mobilsation of untapped resources. (viii)To improve the level of people in the country

Scope:

1) Manufacturing activities
2) servicing/repairing activities
3) Retailing activities
4) Infrastructural activities like transportation, communication and other public utilities. Financial activities
5) whole-sale activities
6) Construction activities

Government policy towards small scale industries to strengthen the scope for small industrial development in the country

1) Announced the reservation policy for small scale industry development in the country in 1947 which included 47 items for exclusive manufacture in SSI sector

2) By 1983 the reserve list included 836 items for exclusive production in SSIs.

3) The main objectives being to insulate the small sector from unequal completion of large industrial establishments. Important industries reserved for exclusive development in the small sector are: Food and allied industries, Textile products; leather and leather products including footwear; rubber products: plastic products :chemical and chemical products: glass and ceramics: mechanical engineering transport equipment: metal cabinets all types: pressure stove: electrical appliances: electronic equipments and components: boats and truck body buildings: auto parts components mathematical and survey instruments; sports goods; stationary items, clocks and watches etc.

Government policy for small scale enterprises:

IPR 1948

1) Accepted for the first time the importance of small scale industries in the overall economic development of the country.
2) Realized that small scale industries are particularly suited for utilization of local resources and for creation of employment opportunities
3) Passed a resolution that the central government in cooperation with state governments should solve the problems of SSI like raw materials, capital, skilled labor, marketing etc to protect SSIs

IPR 1956

I) Industries development and regulation act was passed in 1951to regulate and control the industries in the country
2) Parliament accepted to develop "**the socialist pattern of society"** as the basic aim of economic policy which cam in form in 1956
3) Measures were taken to provide sufficient vitality to decentralized sectors and to work with the large scale industry
4) Small scale industries board constituted a working group in 1959 to formulate a development plan for SSIs during the third five year plan in 1961-66
5) During this period projects like "Rural Industries Projects" and "Industries Estate Projects" were started during this period to strengthen the small sectors
6) Thus the IPR 1956 aimed at "Protection plus Development" which initiated a modern SSI in India

IPR1977

1) Emphasized new renewal policy was based on effective promotion of cottage and small industries widely dispersed in rural areas and small towns.
2) Thus IPR1977 accordingly classified small sector into three categories
(i)Cottage and household industries: to provide self- employment on large scale
(ii)Tiny sector: promoting investment in industrial units in plant and machinery up to 1 lakh **(iii) Small scale industries:** comprising of industrial units with an investment of Rs.10 lakhs and up to 15 lakhs for ancillary industries.
Measures suggested for promotion of s mall scale and cottage industries:
(i)Reservation of 504 items for exclusive production in small-scale sector
(ii)Proposal to set up „district industry centre‟ agency in each district which was introduced in 78
Thus the as per this resolution the small sector was thus to be protected, developed and promoted

IPR 1980

- The Government of India adopted a new industrial policy resolution(IPR) on July
- 231980 The main objective of this polices were
  - i) Increase in investments of tiny plants from Rs1 lakh to 2 lakh and from 10 lakhs to 20 lakhs for SSIs and from Rs.15 lakhs to 25 lakhs in case of ancillaries.

ii) Introduction of the concept of nucleus plants in case of DICS in each industrially backward district and to promote maximum small scale industries there.

iii) Promotion of village and rural industries to generate econo mic viability in the villages well compatible with the environment. Thus IPR 1980 emphasized the spirit of IPR 1956

IPR 1990

- Was announced during June 1990
- Resolution continued to give the increasing importance to small-scale enterprises to serve the objective of employment generation
- **Important elements in the resolution to boost the development of small scale industries of IPR 1990 are**

(i)Investment ceiling increased in plant and machinery for SSIs was raised from 35 lakhs to 60 lakhs and for ancillary industries from 45 lakhs to 75 lakhs

(iii)836 items reserved for exclusive manufacture in small scale industry

(iv)subsidy introduced for SSIs by the central government for SSIS in rural and backward areas capable of generating employment

(v)to improve competiveness amongst SSIs pro-grams of technology upgradation was implanted under the apex technology development centre in small Industries Development Organization(SIDO)

(vi)to ensure adequate and timely flow of credit facilities for the small scale industries a new apex bank known as „**Small Industries Development Bank of India(SIDBI)'** was established in **1991**

(vii)Greater emphasis on training of women and youth under **Entrepreneurs hip Development Program (EDP)** was started.

(viii)implementation of de licensing of all new units with an investment of Rs.25 crores in fixed assets in non-backward areas Rs.75 crores in centrally notified backward areas and De licensing took place for 100%export oriented units set up in export processing zone took place with a ceiling of Rs.75 lakhs.

Salient features of the new small enterprise policy of 1991

1) Increase in investment limit in plant and machinery of tiny enterprises from **2 lakhs to 5 lakhs** irrespective of the location of the enterprise

2) Inclusion of the industry related services and business enterprises **irrespective of the location** as small industries

3) Introduction of the **limited partnership Act**. Which would limit the financial liability of the the new entrepreneurs to the capital invested.

4) Introduction of a scheme of Integrated Infrastructural Development for small-scale industries

5) Introduction if **factoring services** to help solve the problems of delayed payment to small sector

6) **Market promotion** of the small scale industries products through **co-operative/public sector institutions**, other specialized professional/marketing agencies and the consortium approach

7) To **set up a technology development cell** in the Small Industries Development Organization (SIDO)

8) **To accord priority to s mall and tiny sector** in the allocation of indigenous raw materials. 9) Setting up of export development centre in SIDO

10) **To widen the scope of National Equity Fund (NEF),** to enlarge the single window scheme and also to associate commercial banks with provision of composite loans

Impact of globalization and liberalization on SSI in India

Prior globalization scenarios:

1) Before the introduction of economic reforms in 1991 the SSI sector was overprotected

2) The small scale industry had never a strong desire to grow to medium and large scale because of the benefits of protection given to it.

3) Many of the policies also discouraged the growth of the small units to larger ones.

Post globalization scenario:

With globalization the SSI are exposed to stiff competition both from the large-scale sector-domestic and foreign- and from MNCs

The poor growth rate in SSIs during the post liberalization period can be attributed due to the following factors:

1) The government policy did not ensure the interests or priority of the sector

2)the SSI s were left to the mercy of the lending institutions and promotional agencies as a result of which the SSI sector suffered deterioration in the quality of its output industrial sick ness and retrograde growth.

3)also resulted in the delay of the implementation of the projects, inadequate availability of finance and credit, expensive mode of communication, marketing problems, cheap and low quality products, delay in payments, technological obsolescence, imperfect knowledge of market conditions, lack of infrastructural facilities, and deficient managerial and technical; skills

4) Opening of the markets has also led to stiff completion besides world trade organizations regulating multilateral trade requiring its member countries to remove import quotas, restrictions and reduce import tariffs.

5) India was also asked to remove quantitative restrictions on imports by 2001 and all export subsidies by 2003 as a result every individual small or large, exporting or serving a domestic market had to face competition.

6) The SSI also had to face completion due to the placing of 586 of the 812 reserved items on the Open General License (OGL) import list which resulted in the import of high qualit y goods from developed countries

7) The SSIs also had to face stiff completion due to the arrival of MNCS and removal of the restrictions on foreign direct investments which witnessed the arrival of many automobiles and electronics companies in 1991.

Steps taken by the central government in order to protect, support and promote small enterprises.

- The following were the steps taken by the central government in order to protect, support and promote small enterprises.
- Providing

  1) Industrial extension services
  2) Credit facilities in respect of institutional support
  3) Developed sites for construction of sheds
  4) Training facilities
  5) Supply of machinery on hire-purchase terms
  6) Assistance for domestic marketing as well as experts
  7) Special incentives for setting up enterprises in backward areas
  8) Technical consultancy and financial assistance for technological up gradation

Impact of WTOS on SSIs

1) Emerging challenges to SSIs are due to the impact of the agreements under the WTO to which India is a signatory along with 134 member countries
2) Setting up of WTO has altered the framework of the international trade towards non-distortive market oriented policies.
3) This is due t o the policy shift that occurred world wide since the early 1980s in favor of free market forces and tilt from the state intervention/regulation in the economic activity
4) The main outcome of such policy would be reduction in export subsidies greater market access, Removal of non-tariff barriers and reduction in tariffs.
5) This would also bring about tighter patent laws through the regulation of intellectual property rights under the Trade Related aspects of Intellectual Property Rights (TRIPS) Agreement which lay down what is to be patented and for what duration.
6) The increased market access to imports will mean opening up the domestic market to large flow of imports.

Ancillary Unit:

- is a subclass of SSIs which is an industrial undertaking which is engaged or is proposed to be engaged in
  - (i) the manufacture of parts, components, sub-assemblies, tooling or intermediates
  - (ii) rendering of services, or supplying of or rendering not less than 50 percent of its production or its total services as the case may be to other units for production of other articles and whose investment in fixed assets in plant and machinery does not exceed Rs.1 crore as on March 31, 2001 and shall be treated as an ancillary enterprise

Tiny Unit:

- is that unit whose investment in plant and machinery does not exceed Rs.25 lakhs irrespective of the location of the unit.