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IMPORTANCE OF FIVE YEAR PLANS & INDUSTRIAL POLICIES FOR THE DEVELOPMENT OF SMALL SCALE INDUSTRIES

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ABSTRACT

Industrial development becomes incomplete without the roll-out of Small Scale Industries, since this sector provides opportunity to create the abundant manpower and unexploited resources. Value of the progression of small-scale sector significantly increased. To add mass to any action, independent of the way to obtain credit, it is always make the feasibility of government policies for initiation of the latest industries and with supporting the sick industries to accomplishing the duty of healthy small-scale industries. Government industrial policies and five year plans therefore plays a crucial role in small sectors industries ready for its economical growth and increase in such industries which have been for that welfare belonging to the mankind by giving necessary support in a variety of tasks in small scale industries. On this present paper we discussed about Five-Year plans and various industrial policies towards the introduction of small , medium scale industries sector and proposed some tips for better performance of such small , medium enterprises by explaining the current situation of SSI sector and the position of Sick units and just how they financed by way of the commercial banks.

KEYWORDS

Small Scale Industries, Five year plans, industrial policies, Nationalized Banks.

1. INTRODUCTION

The prominence for small scale sector emanates from two basic premises of economic development policies being the balanced development and sustainable growth of the economy which will involve certain minimum amount of diversification within the economy. Small, and medium enterprise units being labour intensive have favourable capital-output ratio. Small enterprises have flexibility to help with making quick adjustment to changing economic and trading scenario.

Small and Medium Enterprises (SMEs) can easily absorb new technology, new design, new processes together with the like. If large scale industries dominate, many small scale enterprises retain a competitive advantage by serving dispersed local markets, providing differentiated products with low-scale economies. Small scale industries have an overabundance flexible production schedules, and might operate closer to rural homes compared to a larger units and thus be a major entrepreneurial source among women in developing countries. Industrial development becomes incomplete without the roll-out of Small Scale Industries, since this sector provides opportunity to use the abundant manpower and unexploited resources.

The increased exposure of the progression of small scale sector significantly increased in the establishment of the look commission which initiated the formulation of some Five Year Plans and industrial policies. These Indian Five Year Plans and industrial policies have given a particular area to the small scale industrial sector, due to creation of broad based employment opportunities and wide dispersal of industrial production.

2. FIVE YEAR PLANS FOR SSI DEVELOPMENT

The key provisions for the development are determined in different forms not only reserved for the priority sectors plus towards the economical continuing development of all weaker sections in particular Small Scale Sector.

2.1. FIRST FIVE YEAR PLAN: In this plan directions made towards reservation of sectors of productions and prevention of capacity expansion by large scale units and reservations for small scale industries development. The development of small scale industrial sector received a new thrust after the adoption of the Ford Foundation's perspective plan in 1953-54 which earmarks the areas of functional and operational weaknesses in this sector, the major ones being; market research, design, raw material availability, research and technical assistance, distribution and promotion, and finance and professional management.

2.2. SECOND FIVE YEAR PLAN (1956-61): Mahalanobis Model is the base for it. This Mahalanobis strategy of development accorded the highest priority to heavy industries and implementation of this policy involved rapid development of the public sector which promotes separate component of planning to promote modern small scale industries within the overall gamut of rural, village and small industries.

2.3. THIRD FIVE YEAR PLAN (1961-66): A reference may be made to the proposed establishment of deposits for stocking raw materials in short supplies which are to be made available to small units with a view to assisting in fuller utilisation of the existing capacity. In order to foster the growth of small scale industries, the policy of product reservation was initiated in 1967 to make products of small scale sector competitive with those of the large scale sector by offsetting the disadvantage of mass scale production, economies of scale, wider marketing network, better credit availability and publicity through mass media and advertisements.

2.4. FOURTH FIVE YEAR PLAN (1969-74): Rural industrialisation was accepted as an effective instrument for the promotion of decentralization, development of agro-industries and dispersal of industries in backward areas for reducing regional disparities in income and employment opportunities in the country.

2.5. FIFTH FIVE YEAR PLAN (1974-79): This plan emphasized that the rural industrialisation had an important role to play in the removal of poverty, disparities in income and regional imbalances.

2.6. SIXTH FIVE YEAR PLAN (1980-85): It aimed at a strategy based on industry cum development approach leading to vertical and horizontal integration of the programmes. Its major objectives being: (i) to generate opportunities for further and full time employments; (ii) revitalising and developing the existing traditional and other small-scale industries; (iii) promoting intensive development of new viable industries; (iv) to raise the level of earnings of rural artisans, handlooms, weavers, craftsmen and other employed in the industries; (v) to promote the growth of these industries in rural areas; and (vi) to reduce progressively the role of subsidies by providing selective credit, development of skills, design and marketing.

2.7. SEVENTH FIVE YEAR PLAN (1985-90): During this plan Nayak committee and single window scheme has been established for the development of SSI sector.

2.8. EIGHT FIVE YEAR PLAN (1992-97): The eighth plan allocated a sum of Rs.6334 Crore for the development of small scale industries. Production of small-scale industries reached a peak of Rs.4112636 Crore, employment Rs. 160 Lakh and export Rs.39248 Crore in 1996-97.

2.9. **NINTH FIVE YEAR PLAN (1997-2002):** This plan laid down the strategy for the development of small scale sector. The Plan proposed: (i) review of list of reserved items; (ii) inducement to financial institutions to offer factoring services to small enterprises; (iii) extending the coverage of Prime Minister Rozgar Yojana in order to create new self employment opportunities. Moreover, under the scheme of Integrated Infrastructure Development Centres (IIDC), infrastructure facilities are being developed in backward rural areas.

In the year 1999, the Planning Commission constituted a Study Group on Development of Small Enterprises under the chairmanship of Dr S.P. Gupta. The committee recommended three tier definitions for: (i) tiny sector with an investment in plant and machinery up to Rs.10 Lakh; (ii) small scale unit with an investment in plant and machinery above Rs.10 Lakh to Rs.1 Crore; and (iii) medium scale unit with an investment in plant and machinery above Rs.1 Crore to Rs.10 Crores. The Study Group also recommended the enactment of a separate Small Enterprises Development Act for governing the promotion and development of small enterprises. Hence, with effect from October 2, 2006, a comprehensive act called Micro, Small and Medium Enterprises Development Act, 2006 came into force which aimed at facilitating the growth of small enterprises so that they could graduate to medium enterprises, thus improving their competitive strength.

2.10. **TENTH FIVE YEAR PLAN (2002-07):** This plan proposed to: (i) Adopt a promotional approach to the small scale industrial sector as there is a growing realisation that the policy of reserving the manufacture of certain items exclusively for small-scale units is unsustainable and prevents them from attaining economies of scale and dealing with competition; (ii) raise the ceiling on investment in plant and machinery to Rs.5 Crore for SSIs to enable the small-scale industry to graduate smoothly into medium enterprises; (iii) expedite the recommendations of the Committee established for addressing the problem of multiple inspection and consequent harassment of small scale units; and (iv) provide the Small and Medium Enterprises (SME) sector with adequate term and working capital loans. The other areas which merit consideration are credit rating, capacity building in project appraisal and compliance with RBI instructions on collateral free loans.

2.11. **ELEVENTH FIVE YEAR PLAN (2007-12):** To achieve the targeted growth in medium and small enterprises at the rate of 12 percent as they are instruments of inclusive growth which touch upon the lives of the most vulnerable, the most marginalized- women, Muslims, SCs and STs – and the most skilled. The Eleventh Plan approach to the Medium and Small Enterprises sector marks a shift from the welfare approach to that of empowerment.

In this Plan, the Ministry of Micro Small and Medium Enterprises (MSME) would establish a Technology Mission to promote new and emerging technologies, assess present levels of technology and their up-gradation, setup technology information centers / data banks and an IT portal for information dissemination to carry out detailed technology audits. In 2006, the government launched the National Manufacturing Competitiveness Programme (NMCP). The NMCP and the Ministry of Micro, Small and Medium Enterprises chalked out a five-year programme which includes setting up of design clinics, application of lean manufacturing technologies for increasing competitiveness of firms by systematically identifying and eliminating waste throughout the business cycle. It has been observed that Labour Laws and Factory Laws generally create problems for Micro and Small Enterprises (MSE) units in terms of number of inspections. To address this issue, the committee setup under Planning Commission recommended a system of third-party inspection to give enterprises an option to get their regulatory compliance certified by accredited agencies. Once such certification has been obtained, the unit would be exempted from routine inspection.

2.12. **TWELFTH FIVE YEAR PLAN (2012-2017):** It is planned for the development of small scale industries in all possible routes from the inception of a small enterprise by improving the availability of finance by way of facilitating access to bank credit, opening alternate routes for equity funding through angel funding, venture capital, private equity etc. as well as facilitating entry to capital markets through IPOs and specialized exchanges for SMEs; Improving marketing and procurement facilities through preferential treatment for MSEs in public procurement, development of B2B portals and establishing cluster based marketing networks; Improving the skill level of work force through harmonization of training programmes under the Ministry with the mission of the Prime Minister's National Council for Skill Development; Improving infrastructure for the MSME sector by ensuring availability of work places, common facility centers and specialized growth centers for startups; Improving technology and innovation through continuation of National Manufacturing Competitiveness Programme (NMCP), facilitating technology transfer and creation of intellectual properties and wide spreading adoption of information and communication technologies; Facilitating entry of young/first generation entrepreneurs through entrepreneurial support, access to venture/equity funding, ensuring collateral free credit, providing ready-to-move workplaces, enabling entrepreneur friendly policy environment and finally ensuring access to market; Developing an institutional framework for handholding of the Micro & Small entrepreneurs to move up the value chain and facilitating global competitiveness of the small & medium enterprises; Projecting Khadi as eco-friendly and heritage product and leveraging KVI sector to achieve 11% growth in Khadi, 13.7% growth in Village Industries (VIs) production and 12% growth in the flagship scheme PMEGP and Acquiring new dimensions for Coir Sector through diversification of products and market as also technological interventions to enhance quality and competitiveness so as to double the exports from present level of Rs.800 Crore within 5-years.

Accordingly in the process of reshaping and developing the Indian economy under the aegis of Five Year Plans, SSI sector is rapidly coming into prominence.

3. INDUSTRIAL POLICY RESOLUTIONS FOR SSIs:

The Government's attitude and intention towards industrial development after independence is very particular because besides agricultural the only possible division is the industries. By giving financial support and allowing private funds in to this sector for infrastructure development, subsidies to the established industries are the major factors for promoting this sector to achieve the growth in industries and growth in employment. Production of employment is also a major problem in developing countries like India is also an important task for economic growth. SSIs are the best remedy for producing high employment at low investments and high number of products in all areas depending on natural resources.

In order to achieve targeted development and to cater the needs of industries in general and SSIs in particular, Industrial policy Resolutions had been made by the Government of India.

3.1 **INDUSTRIAL POLICY RESOLUTION 1948:** It was stated that SSIs are particularly suited for the utilization of local resources and creation of employment opportunities. The primary responsibility for developing small industries by creating infrastructure has been provided to state governments. Central government frames the broad policies and coordinates the efforts of State Governments for the development of SSIs.

3.2 **INDUSTRIAL POLICY RESOLUTION 1956:** It stated that besides continuing the policy support to cottage, village and small industries by differential taxation or direct-subsidies, the aim of state policy would be that the development of this sector is integrated with that of large scale industry.

3.3 **INDUSTRIAL POLICY RESOLUTION 1977:** The main thrust of policy was effective promotion of cottage, village and small industries widely dispersed in rural areas and small towns.

3.4 **INDUSTRIAL POLICY RESOLUTION 1980:** The policy focused on the need of promoting SSIs through integrated industrial development between large and small sectors. Industrially backward districts were identified for faster growth of existing network of SSIs.

3.5 **INDUSTRIAL POLICY RESOLUTION 1990:** It raised the investment ceiling in plant and machinery for SSIs. It created central investment subsidy for this sector in rural and backward areas. Also, assistance was granted to women entrepreneurs for widening the entrepreneurial base. Reservation of items to be produced by SSIs was increased to 836. Small Industries Development Bank of India (SIDBI) was established to ensure adequate flow of credit to SSIs. Stress was reiterated to upgrade technology to improve competitiveness. Special emphasis was laid on training of women and youth under Entrepreneurial Development Programme. Activities of Khadi and Village Industries Commission and Khadi and Village Industries Board were to expand.

3.6 **INDUSTRIAL POLICY RESOLUTION 1991:** The basic thrust of this resolution was to simplify regulations and procedures by de-licensing, deregulating, and decontrolling. SSIs were exempted from licensing for all articles of manufacture. The investment limit for tiny enterprises was raised to Rs. 5 Lakhs, irrespective of location. Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs. Factoring services were to launch to solve the problem of delayed payments to SSIs. Priority was accorded to small and tiny units in allocation of indigenous and raw materials. Market promotion of products was emphasized through co-operatives, public institutions and other marketing agencies and corporations.

During the recession period in the recent past Indian economy escaped only because of SSIs. That is why, the government emphasizes on the growth and development of small scale sector by directing planning commission which initiated the formulation of a series of Five Year Plans. And at the same time government initiated with the Industrial Policy Resolutions in different Five Year Plans made recognized growth in SSIs sector

The Industrial Policy approach turned full circle with the advent of the Narsimha Rao government in 1991 in the form of New Industrial Policy of 1991. The country decided to follow the lines of capitalism. The watchword for the New Industrial Policy thus became liberalization, globalization and privatization. The Government introduced three sets of reforms:- first, deregulation, delicensing, decontrol and de-bureaucratization of industrial licensing system; two, liberalization of foreign trade and currency transactions and third, institute several measures to facilitate foreign direct investment inflows. All these measures were launched in the year 1991 and since then, further liberalizations have been introduced every year with each new budget.

4. PERFORMANCE OF SSI SECTOR IN INDIA

As discussed above, These Indian Five Year Plans have given a special place to the small scale industrial sector, due to creation of broad based employment opportunities and wide dispersal of industrial production. Year wise growth rate of employment in Small Scale sector is shown in Table 1. However, sick units position is bit disappointing, the aid from the commercial banks to sick SSIs facilitates to boost its performance to stand back. The position of sick units in India from the year 2001 to 2014 is shown in Table 2.

TABLE 1: YEAR WISE GROWTH RATE OF EMPLOYMENT IN SSI SECTOR

| Sl.No. | Year | Employment (in Lakh) | Growth Rate (%) |
|--------|---------|----------------------|-----------------|
| I | II | III | IV |
| 1 | 2001-02 | 249.33 | - |
| 2 | 2002-03 | 260.21 | 4.36 |
| 3 | 2003-04 | 271.42 | 4.31 |
| 4 | 2004-05 | 282.57 | 4.11 |
| 5 | 2005-06 | 294.91 | 4.37 |
| 6 | 2006-07 | 805.23 | 173.04 |
| 7 | 2007-08 | 842 | 4.57 |
| 8 | 2008-09 | 880.84 | 4.61 |
| 9 | 2009-10 | 921.79 | 4.65 |
| 10 | 2010-11 | 965.15 | 4.70 |
| 11 | 2011-12 | 1,011.80 | 4.83 |
| 12 | 2012-13 | 1,061.52 | 4.91 |

Source: MSME Annual Report 2013-14

The data shown in the above table represents the employment and its growth rate in SSI sector from the year 2001-02 to 2012-13. The Government of India generating and implementing various schemes and policies for the development of SSIs. The main motto behind this is, to eradicate unemployment and growth in per capita income through SSIs. As per the annual report of MSME, the employment generated through SSIs till 2012-13 is 1061.52 Lakhs. From 2001-02 to 2005-06, an average growth rate is 4.29 percent. However, in the year 2006-07 the growth rate of employment is 173.04, why because, the MSME Act, 2006 has come into force. With the support of this Act, it is notified that 238.34 Lakh enterprises are in working status additionally in the year 2006-07 when compared to the year 2005-06. It means, 510.29 Lakh people are additionally benefited by way of employment in the year 2006-07. Later on, even though the number is in increasing manner but the rate of growth is very slow. In the year 2007-08, only 36.57 Lakh people are employed which is 4.57 percent of growth when compared to the previous year. Even though the facilities of term loans and working capital loans, RBI instructions on collateral free loans and enactment of National Manufacturing Competitiveness Programme (NMCP) are available there is no such rapid growth in working enterprises. The above chart is indicating the year wise proportions of number of employment. The chart is showing 79 percent of overall growth rate is happened only in the year 2006-07. In the remaining all years the growth is of 2 percent except 3 percent in the year 2012-13 which means 4.91 percent of growth which is equivalent to 49.72 Lakh in number when compared to previous year 2011-12.

4.1 SICK UNITS IN INDIA

TABLE 2: POSITION OF SICK SSI UNITS

| Year (end-March) | Sick SSI/MSE units |
|------------------|--------------------|
| 2001 | 249630 |
| 2002 | 177336 |
| 2003 | 167980 |
| 2004 | 138811 |
| 2005 | 138041 |
| 2006 | 126824 |
| 2007 | 114132 |
| 2008 | 85187 |
| 2009 | 103996 |
| 2010 | 77723 |
| 2011 | 90141 |
| 2012 | 85591 |
| 2013 | 220492* |
| 2014 | 456771 |

Source: MSME Annual Report 2013-14

4.2 CAUSES FOR SICKNESS

Pertaining to the factors, this sickness arises due to internal disorder in the areas justified as following:

- Lack of Finance:** This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.
- Bad Production Policies :** The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.
- Marketing and Sickness:** This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.
- Inappropriate Personnel Management:** The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labour relations, lack of behavioral approach causes dissatisfaction among the employees and workers.
- Ineffective Corporate Management:** Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

TABLE 3: YEAR WISE SICK SSI UNITS FINANCED BY SCHEDULED COMMERCIAL BANKS

| Year | No. of Sick SSI units | Amount Outstanding (Rupees in Billion) |
|-------|-----------------------|--|
| 2001 | 2,49,630 | 45.06 |
| 2002 | 1,77,336 | 48.19 |
| 2003 | 1,67,980 | 57.06 |
| 2004 | 1,38,811 | 52.85 |
| 2005 | 1,38,041 | 53.8 |
| 2006 | 1,26,824 | 49.81 |
| 2007 | 1,26,824 | 49.81 |
| 2008 | 85,187 | 30.82 |
| 2009 | 1,03,996 | 36.19 |
| 2010 | 77,723 | 52.33 |
| 2011 | 90,141 | 52.11 |
| 2012 | 85,591 | 67.9 |
| 2013 | 2,20,492 | 124.42 |
| 2014* | 4,56,771 | 276.22 |

Source: MSME Annual Report 2013-14 - * Data for 2014 are Provisional.

From the above table 3, it is shown that in India, there are so many industries are going to be sick by the above reasons and the financial institutions are supporting to those sick industries towards running and development. In such financial institutions commercial banks are very close to the industries which will help such industries at earliest. This table gives the details of the identified sick units and the finance given to those sick industries by the commercial banks. Due to the five year plans and industrial policies, so many industries are initiated in different plan periods. By introducing the MSME act 2006, so many small scale industries are streamlined from sickness due to the liberalization of rules after that it is clear that there are no such huge number of sick units are identified upto 2012. In 2013 and in 2014 the intensity is more and the support to those industries is also huge.

5. CONCLUSIONS

From the above discussion, it can be concluded that the five year plans have given a special place to the small scale industrial sector, due to creation of broad based employment opportunities and wide dispersal of industrial production. By the industrial policies, the small scale sector had a new dimension of liberalization, globalization and privatization.

However, sick units position is bit disappointing, the aid from the commercial banks to sick SSIs facilitates to boost its performance to stand back and it is compulsory to Small Scale Units to acquire knowledge about the taxation and regulatory measures by way of training and should use budgetary control for financial planning to overcome the sickness.

Small Scale Units should collect information about the Govt. assistance and utilize it effectively in getting the assistance is also an important task to get liberate from the industrial sickness majorly.

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