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SMEs IN INDIA: ROLE AND RELEVANCE IN ECONOMIC DEVELOPMENT

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ABSTRACT

The Small and Medium enterprises play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has included this sector in its five-year plans. The SMEs are still hampered by the problems of finance, marketing and low quality. Taking into account the enormous potential of the small sector, the entrepreneurs and the policy-makers must act collectively to facilitate growth in this sector. Various factors affecting the growth and development of small-scale industries and the problem faced by this vital sector of Indian economy is examined in this paper. Role and relevance of SMEs in economic development is also analysed. Further the policy initiatives taken by the Government in India is also discussed.

KEYWORDS

SMEs, MSME, Industrial sector, India, economy and labour.

1. INTRODUCTION

Small and Medium Enterprises is an integral part of the Indian industrial sector. Less capital investment and high labour absorption is the distinctive feature of Small and Medium Enterprises (SMEs). It has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable distribution of income in India. The SMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy. In recent years, the small-scale sector in India has emerged as a progressive and decentralised sector on its own. Small-scale industries have made a significant contribution to employment generation in the non-agricultural sector in India. The data available from the Ministry of Small-scale Industries, Government of India (Annual Report 1999:2000) indicates that there has been an excellent growth in small scale industries in India in recent years. The number of SSI units in India has increased from 2.082 million in 1991-92 to 3.121 million in 1998-99. The value of production in these units has increased from Rs.1786.990 Billion to Rs.5275.150 Billion in 1998-99. The volume of employment in small-scale sector has increased from 12.98 million in 1990-91 to 17.158 million in 1998-99. According to the Ministry Of Micro, Small and Medium Enterprises, the number of MSME units in India has grown at a CAGR of 4.5 per cent during FY07 – FY11, and stood at 31.2 million at the end of FY11. The cumulative investments in these units rose at a CAGR of 11.5 per cent during the same period. Strong growth in total investments in MSMEs indicates towards their expanding footprint and growing importance. The MSMEs are increasingly contributing towards employment generation in India. The number of people employed by MSME has grown to 73.2 million during FY11 recording a CAGR of 5.3 per cent since FY07.

Some of the important organizations that are associated with SMEs in India are: Small Industries Development Organization (SIDO), Small Industries Development Bank of India (SIDBI), National Small Industries Corporation Ltd. (NSIC), Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), Laghu Udyog Bharti (LUB), Associated Chamber of Commerce and Industry of India (ASSOCHAM), National Institute of Small-Industry Extension Training (NISJET), World Association for Small and Medium Enterprises (WASME), Small Scale Industries Board (SSIB), PHD Chamber of Commerce and Industry (PHDCCI), Federation of Indian Exporters Organization (FIEO), Federation of Associations of Small Industries of India (FASII), Consortium of Women Entrepreneurs of India (CWEI), Indian Council of Small Industries (ICSI), Indian Institute of Entrepreneurship (IIE), National Institute for Entrepreneurship and Small Business Development (NIESBUD) and Small Entrepreneurs Promotion and Training Institute (SEPTI) (Ghatak, 2009).

2. SMEs – ROLE AND RELEVANCE IN ECONOMIC DEVELOPMENT

Small and medium enterprises are the backbone of industrial development. It is very important for both developed and developing country. Small and medium enterprises always represented the model of economic development, which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, effective contribution to foreign exchange earning of the nation with low import-intensive operations. The contribution of small scale industries (SSIs) has been remarkable in the industrial development of the country. It has a share of 40% in the industrial production. 35% of the total manufactured exports of the country are directly accounted for by this sector. In terms of employment generated, this sector is next only to agriculture employing approximately 14 million people. Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Small scale industries are less capital intensive and suit the Indian economic environment with scarce resources and large population base. In addition, it is highly and has a scope for labor intensive for building upon the traditional skill and knowledge. Small scale industries have remained high on the agenda of all political parties, intelligentsia and policy makers since independence as a legacy of Gandhian philosophy.

3. GROWTH AND PERFORMANCE OF SMALL SCALE INDUSTRIES IN INDIA

The level of output by the SSIs went up from Rs 28,060 crore in 1980-81 to Rs.5,78,470 crore by the end of 1999-2000, showing an increase of nearly 20 times over a period of 20 years. Exports have also gone up by nearly 40 times over a period of two decades. The contribution of SSI in exports was high during the period, especially up to the year 1995. The trend reversed during the period 1995-2000 when the growth rate recorded a declining trend.

TABLE 1: PERFORMANCE OF SSIs, YEAR 1990-91 TO 2011-12

Sr. No.	Year	Total SSI Units (Lakhs)	Fixed Investment (Rs. Crore)	Production (Rs. Crore)		Employment (Lakh Persons)	Exports (Rs. Crore)
				Current Prices	Constant Prices (1993-94)		
1	1990-91	67.87	93555	78802	84728	158.34	9664
2	1991-92	70.63	100351	80615	87355	165.99	13883
		(4.07)	(7.26)	(2.30)	(3.1)	(4.83)	(43.66)
3	1992-93	73.51	109623	84413	92246	174.84	17784
		(4.07)	(9.24)	(4.71)	(5.6)	(5.33)	(28.10)
4	1993-94	76.49	115795	98796	98796	182.64	25307
		(4.07)	(5.63)	(17.04)	(7.1)	(4.46)	(42.30)
5	1994-95	79.60	123790	122154	108774	191.40	29068
		(4.07)	(6.9)	(23.64)	(10.1)	(4.79)	(14.86)
6	1995-96	82.84	125750	147712	121175	197.93	36470
		(4.07)	(1.58)	(20.92)	(11.40)	(3.42)	(25.46)
7	1996-97	86.21	130560	167805	134892	205.86	39248
		(4.07)	(3.82)	(13.60)	(11.32)	(4.00)	(7.62)
8	1997-98	89.71	133242	187217	146262.9	213.16	44442
		(4.07)	(2.05)	11.57)	(8.43)	(3.55)	(13.23)
9	1998-99	93.36	135482	210454	157525.1	220.55	48979
		(4.07)	(1.68)	(12.41)	(7.7)	(3.46)	(10.21)
10	1999-00	97.15	139982	233760	170379.2	229.10	54200
		(4.07)	(3.32)	(11.07)	(8.16)	(3.88)	(10.66)
11	2000-01	101.1	146845	261297	184401.4	238.73	69797
		(4.07)	(4.90)	(11.78)	(8.23)	(4.21)	(28.78)
12	2001-02	105.21	154349	282270	195613	249.33	71244
		(4.07)	(5.11)	(8.03)	(6.06)	(4.44)	(2.07)
13	2002-03	109.49	162317	311952	210636	260.21	86013
		(4.07)	(5.16)	(10.52)	(7.68)	(4.36)	(20.73)
14	2003-04	113.95	170219	357733	228730	271.42	NA
		(4.07)	(4.87)	(14.68)	(8.59)	(4.31)	
15	2004-05	118.59	178699	418263	251511	282.57	NA
		(4.07)	(4.98)	(16.92)	(9.96)	(4.11)	

4. POLICY INITIATIVES BY GOVERNMENT IN INDIA

The importance that the government attaches to SSI sector is reflected in the fact that a new ministry to deal exclusively with small and tiny industries was constituted in 1999. The policy initiatives taken by the Government in India and given in the annual report of Ministry of Small Scale Industries, 1999-2000 in regard to SSI sector can be divided into the following categories.

A. FINANCIAL CONCESSIONS

From time to time the SSI units have been given a number of financial concessions. Some of the concessions currently available are: Excise exemptions for branded goods to units located in rural areas. General Excise exemption to industries such as those engaged in cotton yarn and glazed tiles, packaged tea. Increase in MODVAT Credits to manufacturing units. The other fiscal incentives are by way of concession in credit to SSI units from banks. Important changes in recent budget include: Enhancement in the limit of composite loan from Rs. 200,000 to Rs. 500,000. Delegation of more powers to branch managers to grant ad-hoc facilities to the extent of 20% of limit sanctioned. Special training programs for branch managers, Opening of more SSI branches, Credit insurance scheme etc.

B. RESERVATION

The reservation of items of exclusive manufacture in SSI sector is statutorily provided for in Industries Regulation and Development Act. The reservation policy aims to ensure that the bulk of increased production of consumer goods is in the small-scale sector. The reservation policy also helps in expanding employment opportunities through setting up of more SSI units. 812 items are currently reserved for exclusive manufacture in SSI sector. Non-SSI units can undertake manufacture of reserved items only if they undertake 50% export obligations. There is no regulation or restrictions on marketing of reserved items by large units.

C. INFRASTRUCTURE SUPPORT

The government has launched a program of infrastructure development in regional and rural areas. Infrastructure facilities like power, water, and communications are funded by the government and SIDBI with the government providing equity and SIDBI providing the loans.

D. TRAINING

The Small Industries Development Organisation, through its network of Small Industries Service Institutes is conducting training programs such as Entrepreneurship Development Programs for various target groups for generating employment and upgrading skills in industries such as hosiery, food products, leather products, herbal cosmetics etc. These trainees are given equity assistance and loans for setting SSI units.

E. TECHNOLOGY SUPPORT

SIDBI had set up a Technology Development and Modernisation Fund for direct assistance of Small-scale Industries to encourage existing industrial units in the sector, to modernise their production facilities and adopt improved and updated technology to strengthen their export capabilities. Assistance is available for

meeting capital expenditures, acquisition of technical knowhow, upgrading of process technology and total quality management in SSI units. The other forms of technology support include: Setting up tool rooms and Product cum Process Development Centres Providing assistance to industry associations/voluntary agencies to set up testing centres. Industry Specific Institutes for training such as Central Leather Institute.

F. EXPORT PROMOTION

Export promotion from the small-scale sector had been accorded a high priority in the India's export promotion strategy because export from this sector accounts for about 40% of total exports. Export strategy for SSI sector includes simplification of export procedures, providing export incentives, trainings and awards etc.

G. CREDIT GUARANTEE SCHEME

The objective of the Credit Guarantee Scheme is to help the SSI units to access credit without the need for a collateral security from eligible financial institutions. The lower limit under the scheme is Rs.2.5 million. The Government of India and SIDBI, the apex development bank have set up a corpus fund of Rs.25 Billion. The fund, which is known as Credit Guarantee Fund Trust for Small Industries (CGTSTI) helps in the availability of collateral free credit to the SSI sector. The Member Lending Institutions sanction credit to the eligible borrowers based on the viability of the projects and seek guarantee cover from CGTSTI against the payment of one time guarantee fee 2.5% of the sanctioned credit facility and thereafter, annual service fee of 1% on the outstanding credit 'CGTSTI guarantees up to 75% of the credit subject to loan cap of Rs.2.5 million and guarantee cap of Rs.1.875 million per borrower. The current trend in percentage of default is around 20% (Venkatsubramanyam, 2001). The success of the guarantee scheme will get reflected only when Member Lending Institutions treat the guarantee scheme as an incentive to support the SSI units.

5. CONCLUSION

In India SMEs has achieved steady growth over the last couple of years. The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information technology, pharmaceuticals, agro and service sectors. Under the changing economic scenario the SMEs have both the opportunities and challenges before them. The support given by the national and the state governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic well-being of the nation. The various policy initiatives in regard to financial concessions and lending, reservations of items exclusively for manufacture in SSI sector, infrastructure and technological support given by the Government of India points to an equity and social justification. However, it should be understood that India is a very diverse country with a huge population and many social, cultural and political problems, which can have a considerable impact on the economy as well. The consequences of not providing support to SSI sector can be disastrous for India.

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