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RESEARCH ARTICLE

SMALL SCALE SECTOR IN TIMES OF GLOBALISATION:A STUDY OF INDIA'S SMALL SCALE SECTOR.

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Abstract

Industrialisation is the backbone for the economic development of any country. Within that small scale sector is very important sector. For a country like India where labour is surplus, regional disparities are very wide, income inequalities are high, skill sets are low, small scale sector becomes even more important. After globalisation there is a need to revisit many aspects of small scale sector. For that it is necessary we study the various characteristics and their changing nature so that right kind of policies can be formed for the small scale sector

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Indian economy is the fastest growing economy of the world. In absolute terms, it is 10th largest economy of the world and 4th largest in terms of purchasing power parity terms. Our development experience has also proved that we have defied the path followed by today's developed countries. We have never experienced the second stage of largest contribution of industries to total GDP and employment. Earlier it was agriculture and now service sector for income generation and for employment purposes agriculture is still largest contributor. Unemployment levels in India are still very high. We see large income inequalities. We also find that modern economic growth has bypassed the unskilled, semi-skilled, uneducated, and less educated. Importance of agriculture has decreased for income generation but at the same time we are not able to transfer the man power from agriculture to manufacture sector, reason being underdeveloped manufacturing sector.

Within the industries MSME can play a major role in solving India's many problems like income inequalities, regional disparities, unemployment, empowerment of women and poor, etc. This is because MSMEs are less capital and skill intensive. They use local resources more intensively.

Importance of MSMEs can be judged from the fact that Small and Medium Enterprises contribute 45% of the industrial output, 40% of exports, 42 million in employment, create one million jobs every year. So to solve majority problems of India, we need to shift our focus on MSMEs. In fact Small and medium enterprises are the backbone of industrial development. In terms of

Employment generated in this sector is next only to agriculture. SMEs play a critical role in generating millions of jobs, especially at the low skill levels. 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. The bad thing is that SMEs in India due to their low scale and poor adoption of technology have very poor productivity.

Economic policy of India has gone through major transformation following the economic crisis of 1991. Though first wave of reforms came in mid 80s, but actual transformation started only after 1991. Since then India is continuously

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integrating with the outer world and this has forced many economic policy changes. Over all these changes can be summarized through policy of LPG. Policy of LPG has created vast opportunities for India in general and industrial sector in particular. This has opened the vast landscape of innovations and technical upgradation. But all sectors are not befitted equally. Some other sectors like MSME have been exposed to threats and challenges. Earlier small scale sector was getting protection from government, now these protections are either withdrawn completely or have diminished in significance. This has led to rethinking for small scale sector.

In this paper we try to gauge the challenges before MSME Sector and the change that have occurred for MSME after economic reforms of 1991. We also endeavor to discuss various organizational and promotional structures for MSME in India.

Definitional aspect of MSME sector:-

Definition of small scale industry has changed many times in India. In 1950 it was defined on the basis of number of people employed in the enterprises with or without power. In 1950, these were grouped into two categories- those using power but employing less than 50 persons and those not using power but employing less than 100 persons.

Another criterion to define small scale industries was on the basis of fixed capital investment in plant and machinery and since 1966 this has changed many times. After economic reforms due to changed scenario and competition from large and foreign companies, a need was felt to revisit the investment limit in small scale sector. As with existing limits on investment small sector was finding it difficult to upgrade and compete with other large industries. In 1997, on the basis of recommendations of Abid Hussain committee, this limit was redefined as investment in plant and machinery for small units and ancillaries less than 3 crore and for tiny units less than 25 lacs. In 2000 this limit was reduced to 1 crore for small unit and limit for tiny units were left unchanged.

In 2006 a major shift took place in the approach of government of India. Till now only tiny/micro and small units were defined and there was no definition for medium units. Another problem with earlier was that it has not defined small service enterprises separately. After economic reforms, we see rapid emergence of service sector in India. In fact, Indian economy is service sector led economy. This necessitated the change regarding the view for small sector. So in 2006, GOI, through MSME ACT 2006 rectified this mistake and both manufacturing and service enterprises were defined for all three categories i.e. Micro, small and medium. The act is aimed at facilitating the growth of small enterprises so that they graduate to medium enterprises, thus improving their competitive strength.

According to MSME ACT 2006 definitions are as follows:-

Micro Enterprise:- A micro enterprise is, where the investment in plant and machinery does not exceed twenty five lakh rupees for manufacturing units and rupee 10 lakh for service enterprises;

Small Enterprise:- A small enterprise is, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees for manufacturing units and for service enterprises this limit is more than 10 lakh but less than 2 crore.

Medium Enterprise:- A medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees for services for manufacturing units and for units in service sector this is more than 2 crore but less than 5 crore.

This definition is definitely an improvement over earlier definitions but suffers from many shortcomings. First it does not differentiate between product lines. A unit working in pickle industry cannot be compared with a unit in computer hardware manufacturing. So to fix equal investment limit for all product lines does not make a sense. There is a need to look into this aspect of definition. MSMEs must be clubbed on the basis of product lines and for each product line separate limits shall be defined. Secondly there is no inbuilt mechanism in the definition to revise it up automatically. Investment limits are not changed for a quite long period of time. As India is a very fast growing economy and income level are increasing very rapidly. Inflation levels are also very high as in all developing economy. No change in investment limit for a period of 5 years also can go against the MSMEs. They would not be able to make new investment as they would lose their MSME status and with that many benefits received by them. Not only that this would make them non-competitive in the market. As price index has risen in India, we should revisit MSME definition and shall evolve a mechanism to couple investment limits with price index. Though more than 10 years have passed, still there is no change in the investment limits. To address this

problem a bill Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015 was introduced in the Lok Sabha on 20.04.2015. This is pending in parliament. The objectives of the proposed amendments are to:

1. Enhance the existing limit for investment in plant and machinery considering changes in price index and cost of inputs consistent with the emerging role of the MSMEs in various Global Value Chains.
2. Include medium enterprises apart from small enterprises in section 7(9) to enable the aforesaid category of enterprises to avail the benefits and become competitive.
3. Empower the central Government to revise the existing limit for investment by notification, considering the inflation and dynamic market situation

Through this proposals for investment limits for MSME are as follows

1. A micro enterprise where the investment in plant and machinery does not exceed fifty lakhs rupees;
2. A small enterprise where the investment in plant and machinery is more than fifty lakhs rupees but does not exceed ten crores rupees;
3. A medium enterprise where the investment in plant and machinery is more than ten crore rupees but does not exceed thirty crore rupees.

Growth and performance of MSME in India:-

To study the growth and performance in India in a comprehensive way, till now four All India census on small scale industry have been conducted. First census was in 1977, second was in 1987-88. Third All India Census of Small Scale Industries (SSI) was conducted with reference year 2001-02. The Census covered both Registered and Unregistered Sectors for the first time. The census adopted different methodology for Registered and Unregistered Sectors. With the enactment of MSME act 2006, a need was felt to collect data afresh ,as no data was available for medium enterprises and service sector units. For this purpose a census was conducted on Micro, Small and Medium Enterprises (MSME) known as Fourth All India Census of MSME 2006-07. The data was collected till 2009, results of which were published in 2011-12. The census adopted different methodology for Registered and Unregistered Sectors. While complete enumeration of enterprises was adopted in Registered Sector, Sample Survey was resorted to in Unregistered Sector. However, for activities under Wholesale/Retail trade, legal, educational & social services, hotel & restaurants, transports and storage & warehousing (except cold storage), which were excluded from the coverage of Fourth All India Census of MSME 2006-07, data was extracted from Economic Census 2005 conducted by Central Statistics Office, Ministry of Statistics and Programme Implementation for finalising the report on MSME Sector. A comparison between 3rd and 4th all India censuses is given below.

Comparison between 3rd and 4th census on small scale sector

Sl. No.	Characteristics	Third Census (2001-02) (Numbers)	Fourth Census (2006-07) (Numbers)	Third Census (2001-02) (Percent)	Fourth Census (2006-07) (Percent)
1	Size of the Sector(in Lakh)	91.46	198.74	100	100
2	Number of Rural Units(in Lakh)	51.99	119.69	56.84	60.22
3	Number of Urban Units(in Lakh)	39.47	79.05	43.16	39.78
4	Micro Enterprises(in Lakh)	NA	198.39	NA	99.83
5	Small Enterprises(in Lakh)	NA	0.35	NA	0.17
6	Number of Women Enterprises (in Lakh)	9.26	18.06	10.13	9.09
7	Nature of Activity : Manufacturing (in Lakh)	33.03	104.5	36.12	52.59
8	Nature of Activity : Repair and Maintenance (in Lakh)	16.93	12.31	18.5	6.19
9	Nature of Activity : Services (in Lakh)	41.5	81.93	45.38	41.22
10	Type of Organization :Proprietary (in Lakh)	88.63	187.07	96.9	94.13
11	Type of Organization : Partnership (in Lakh)	1.04	2.65	1.13	1.33
12	Type of Organization : Private Company (in Lakh)	0.38	0.06	0.42	0.03
13	Type of Organization : Cooperatives (in Lakh)	0.09	0.23	0.11	0.12
14	Total Employment(in Lakh)	187.69	408.84	NA	NA
15	Total Original Value of P&M (in Crore)	24564.92	94639.6	NA	NA
16	Per Unit Original Value of P&M ((in Lakh)	0.27	0.48	NA	NA
17	Total Fixed Investment (in Crore)	62556.6	240816.46	NA	NA

18	Per Unit Fixed Investment (in Lakh)	0.68	1.21	NA	NA
19	Per Unit Employment	2.05	2.06	NA	NA
20	Per Unit Gross Output (in Lakh)	0.86	1.86	NA	NA
21	Gross Output per one lakh Fixed Investment(in lakh)	1.26	1.54	NA	NA
22	Gross Output per one lakh Original Value of P&M(in lakh)	3.22	3.9	NA	NA
23	Employment per one lakh Fixed Investment	3	1.7	NA	NA
24	Employment per one lakh Original Value of P&M	7.64	4.32	NA	NA
25	Employment per one lakh Gross Output	2.38	1.11	NA	NA

Source: Annual report 2015-16, ministry of MSME.

From the table it is clear that maximum number of MSMEs is in rural areas. And the percentage of units in rural areas has increased from 56.84 in 3rd census conducted in 2001-02 to 60.22 in 4th census conducted in 2006-07. We see a concentration towards rural areas. This is very interesting result. Another interesting result is that 99.83% of units were micro enterprises and only 0.17% of units were able to fall in the category of small enterprise. While percentage for medium enterprise is zero. The share of proprietary firm has from 96.9% to 94.13% between these two censuses. Total employment generated by MSME sector was equal to 40 million in 4th census while in 3rd census it was 18.7 million. This spectacular rise in employment figures may be contributes to the inclusion of service enterprises in the data collection which were not enumerated earlier. Average size of investment was 1.21 lakh in 4th census against 0.68 lakh in 3rd census. Per unit employment size was 2.06, not much change from earlier estimates of 3rd census. What is more worrying is the decreasing labour intensity of MSME sector. And use of more capital to produce same number of unit. This is evident from the employment per lakh of fixed investment. In the 3rd census this figure was 3 and in 4th census it decreased to 1.7. That means employment generating capacity of MSME has decreased. But there is another side of this story. Their more dependence on capital has helped to increase productivity. Gross output per one lakh fixed investment was 3.22 in 3rd census and 4th census it has increased to 3.9. Labour productivity has also improved which is also a good sign. In 3rd census to produce out of value of rupee one lakh 2.38 labour was required and now this figure has reduced to 1.11 meaning thereby that to produce same level of output less number of labour is required.

Promotional and Support framework For MSME in India:-

The central and state governments in India have together set up an elaborate 3 tier structure for promoting the small scale sector:

National level: At national level, in pursuance of the recommendations of International Perspective Planning team (1953-54), several institutions have been set up.

SIDO:-

A senior official of the Government of India, who is designated as the Development Commissioner for Small Scale Industries (DCSSI), heads SIDO. He is also the ex-officio Additional Secretary in the Ministry of Small Scale Industries; that is, he is second in command in the bureaucratic hierarchy of the Ministry. The Development Commissioner (MSME) have a network of 30 MSME-Development Institute (MSME-DI), 28 Br. MSME-Development Institute (Br. MSME-DI), 4 MSME-Testing Centres (MSME-TCs), 7 MSME-Testing Stations (MSME-TSs), 21 Autonomous bodies which include 10 Tool Rooms (TRs) and Tool Design Institutes (TDI), 4 MSME-Technology Development Center (MSME-TDC), 2 MSME-Technology Development Center-Footwear (MSME-TDC), 1 Electronics Service & Training Centre (ESTC), 1 Institute for Design of Electrical Measuring Instruments (IDEMI) 2 National Level Training Institutes, and 1 Departmental Training Institute and one Production Center.

NSIC:-

National Small Industries Corporation' (NSIC) is another important institution set up in 1955 that supplies primarily imported machinery on easy finance terms, provides marketing assistance, operates 'Prototype Development and Training Centers' (PDTC) in specific fields such as machine tools, injection molding, leather manufacturing equipment etc. NISIET (now called National Institute of Entrepreneurship and Business Development i.e. NIESBUD) was set up to train and promote personnel, industrial managers and entrepreneurs.

1. Other national level institutions that are supporting the small scale sector are 'National Research Development Corporation' (NRDC), 'Bureau of Indian Standards' (BIS), 'National Productivity Council' (NPC), 'Consultancy

Development Center' (CDC) and 'Electronics Test and Design Centers' (ETDC). The central financial institutions have also set up the Entrepreneurship Development Institute of India (EDII) at the national level to promote entrepreneurship.

2. All the above mentioned institutions are largely meant for the modern small scale industry. In order to promote khadi and village industries, a separate high level commission has been set up under the Ministry of Industry. Similarly for the handlooms, handicrafts, sericulture and other non-modern small units there are separate divisions to promote them.

State level:-

The governments have set up institutions as follows:-

1. Small Industry Development Corporations (SIDCs) to develop infrastructure in the form of industrial plots and industrial sheds.
2. State Financial Corporations (SFCs) to provide long term credit facilities
3. State Exports Promotion Corporations to provide marketing assistance for exports from the small scale sector
4. Technical Consultancy Organizations (TCOs) that provide technical, financial and marketing consultancy to the sector
5. Center for Entrepreneurship Development (CEDs) and Institute of Entrepreneurship Development (IEDs) have been set up to promote entrepreneurship through training.

District level:-

In the year 1978, the central government launched a program of establishing District Industries Centers to provide under a single roof all the support services, clearances, licenses and certificates required by the small entrepreneurs. There are more than 400 such centers, one each in a district.

Institutional Finance for Small Scale Industries:-

The following agencies through their various schemes provide finance to small scale industries sector under the overall policies and guidelines evolved by Reserve Bank of India.

National Level:-

a. Small Industries Development Bank of India (Mainly through re-finance) b. National Bank for Agriculture & Rural Development c. National Small Industries Corporation d. Khadi & Village Industries Commission e. Nationalised Banks f. Development Commissioner, Small Scale Industries (DCSSI)

State Level:-

a. State Financial Corporations (SFCs) b. State Industrial Development Corporation (SIDCs) - Infrastructure/Finance c. State Cooperatives Banks d. Khadi & Village Industries Board

Regional & District Level:-

a. Regional Rural Banks (RRBs) b. District Central Cooperative Banks c. Primary Cooperative Banks d. Branches of State level institutions & nationalised banks about 65,000 in number e. Khadi & Village Industries Commission f. District Industries Center (DIC)

Scope and Conclusion:-

Indian economy is a very fast growing economy. It has recently surpassed the Chinese economy in terms of growth rate. This throws huge opportunities to MSMEs in India than ever for expansion and diversification across the sectors. There are various sectors like manufacturing, Precision Engineering Design, Agro & Food Processing, Pharmaceuticals, Textile & Garments, Retails IT and Service Sector, where MSMEs have huge potential. After globalization technological changes enhance opportunities and improve physical resources to generate ideas and translate them into economic and social value. Banks are also providing credit for empowering them. Consistent policy support is also increasing opportunities of MSMEs. No doubt MSMEs have huge opportunities but they still face a number of problems such as a. Absence of adequate credit from Banks b. Limited Capital and Knowledge c. Non – Availability of proper Information Technology d. Lower capacity of production e. Lack of marketing strategy f. Identification of new marketing. Challenge of getting skilled low cost labour.

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