

BY: SUSMITHA MOHAN M.

GROWTH AND PERFORMANCE OF SMALL-SCALE INDUSTRIES IN INDIA WITH SPECIAL REFERENCE TO KERALA

Small-scale industries (SSIs) have been playing an important role in the overall economic development of a country like India, where millions of people are unemployed or underemployed. Poverty has become the most important problem for our country today. SSIs play an important role in minimising these problems through dividing employment with lower investment. Industrialisation is essential for rural areas because majority of the population lives there. If industrialisation is started from villages then the impact of development is enormous. The economic development of any country primarily depends upon the establishment of industries. SSI sector comprises 95 per cent of the total industrial units in the country. Let us discuss about the growth and performance of small-scale industries in India with special reference to Kerala.



In India, small-scale industries (SSIs) occupy 12.3 million units, contribute to 40 per cent of industrial production and 35 per cent of their

exports and provide employment to about 29.5 million people. The SSIs now produce more than 8000 products. By recognising the importance of SSI units in the development of

economy, the government has been continuously attempting to improve the availability of critical input to this sector and create appropriate infrastructural environment.

Recently, significant policy initiatives have created easy availability of financial assistance, incentives and subsidies and influenced many enterprises to start SSIs. This has resulted in growth in the number of SSI units.

Meaning of SSI

According to Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the micro, small and medium enterprises (MSMEs) are classified into two classes, namely, manufacturing enterprises that are

Table I

Limit for Investment in Plant and Machinery Equipment

Enterprises	Investment in plant and machinery	
	Manufacturing sector	Service sector
Micro enterprises	< ₹ 2.5 million	< ₹ 1 million
Small enterprises	> ₹ 2.5 million but up to ₹ 50 million	> ₹ 1 million but up to ₹ 20 million
Medium enterprises	> ₹ 50 million but < ₹ 1 million	> ₹ 20 million but < ₹ 50 million

engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and service enterprises. The limit for investment in plant and machinery equipment for manufacturing/service enterprises is shown in Table I.

Objective

The paper focusses on overall performance of the SSIs in India from 1990-91 to 2011-12 in terms of number of units registered, production recorded and employment generated. The paper also attempts to compare the performance of small industries in Kerala in terms of number of units, investments, employment and production. It also analyses the barriers for the development of SSIs and suggests some measures for improving their performance in India.

Methodology

The study has been based on secondary data gathered from journals, reports, economic reviews and websites.

Importance of SSIs

Economic development of a country is directly related to the level of industrial growth. India has also been striving to develop the country's industrial base since independence. The expansion of industrial sector also leads to improvement in

the general standard of living. SSIs have played a key role in planned development with its advantages of low investment and high potential for employment generation. The development of SSIs is being given due importance by the government in order to achieve the following objectives:

1. To provide additional employment opportunities
2. To mobilise resources of capital and skills from various parts of the country
3. To provide more equitable distribution of national income
4. To provide a helping hand to large industries and facilitate them in their work

Sickness in SSI

The SSI sector now faces problems such as fierce competition and natural threat to indigenous technology. The process of liberalisation, privatisation and globalisation (LPG) posed several threats and challenges for SSIs in India. As a consequence of this, several SSIs flourished and several became sick.

The reason for sickness in SSIs include:

1. Inadequacy of working capital
2. Delay in sanction of working capital and time gap between sanction of term loan and working capital
3. Poor and obsolete technology
4. Problems related to availability of raw material
5. Inadequate demand and other marketing problems
6. Erratic power supply

7. Labour problem
8. Infrastructural constraints
9. Inadequate attention to research and development
10. Inability of the units to face growing competition due to liberalisation and globalisation
11. Slow technology adaptation in mitigation of environmental management, technology system and lack of enforcement of existing procedure.

The Indian government has given due importance to SSIs in the five-year plans because of their immense advantages. All five-year plans have stressed the need to develop SSIs in India. Today, the status of SSI is better than the past years.

Five-year plan outlays to small sector industries increased to ₹ 104,300 million in eleventh five-year plan (2007-12) from ₹ 52 million in first five-year plan (1951-56) indicating the increased importance assigned to this sector.

The performance of SSIs on various parameters, that is, number of units, value of production, number of persons employed and exports has been impressive in spite of tough competition from large-scale sectors. SSI sector has recorded a high rate of growth and made a steady progress during recent years.

Role of SSI sector in the industrial development of Kerala

Kerala is a small state which accounts for only 1.2 per cent of the to-

Credit to micro and small manufacturing and service enterprises is a part of the priority sector lending.

tal geographical area of the country, but accommodates 3.1 per cent of its population (2001 census). Kerala claims 10.5 per cent of the total SSI units in the country and ranks third behind UP (12 per cent) and Gujarat (11.3 per cent).

With a view to promote Kerala as a prime destination for industrial investment with environmental protection, various programmes were implemented during the year 2010-11. But microfinance institution and the private money lenders remain quite unfriendly to MSME activities.

Access to credit is one of the main bottlenecks to SME development. Most SMEs lack the necessary collateral to obtain bank loans. SMEs have limited access to capital markets, both at the national and international levels, in part because of the perception of higher risk, informational barriers and the higher cost of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

The availability of bank credit or investment finance is an important pre-requisite for the progress of the SME sector. After the implementation of Basel 1st norms, banks have been reorienting their balance sheets since the early 1990s to comply with the stipulated standards. These have changed the composition of bank portfolios which in turn has affected the sectoral deployment of credit. Credit to micro and small manufacturing and service enterprises is a part of the priority sector lending.

Focus areas for improving credit flow to the SME sector

Focus on cluster development.

The cluster development focusses on building a self-sustainable development mechanism at identified locations. This is primarily to enhance the productivity and competitiveness

Table II
Growth of SSIs in India from 1990-91 to 2011-12

Year	Number of small scale units (million)	Production (₹ million)	Employment (million)	Export (₹ million)
1990-91	6.787	635,180	15.834	96,640
1991-92	7.063	730,720	16.599	138,830
1992-93	7.351	855,810	17.484	177,840
1993-94	7.649	988,040	18.264	253,070
1994-95	7.960	1,222,100	19.140	290,680
1995-96	8.284	1,482,900	19.793	364,700
1996-97	8.621	1,684,130	20.586	392,480
1997-98	8.971	1,891,780	21.316	444,420
1998-99	9.336	2,129,010	22.055	489,790
1999-00	9.715	2,342,550	22.910	542,000
2000-01	10.11	2,612,890	23.909	697,970
2001-02	10.521	2,822,700	24.909	712,440
2002-03	11.01	3,119,930	26.138	860,130
2003-04	11.395	3,645,470	27.142	976,440
2004-05	11.859	4,297,960	28.235	1,244,170
2005-06	12.342	4,978,820	29.491	1,502,420
2006-07	26.112	7,093,980	59.566	1,776,000
2007-08	27.279	7,907,590	62.637	1,825,380
2008-09	28.516	8,808,050	65.935	2,020,170
2009-10	29.808	9,829,190	69.538	2,235,720
2010-11	31.152	10,957,580	73.217	2,451,270
2011-12	32.56	12,214,420	77.127	2,691,250

Source: Economic Survey of India

of enterprises through technology upgradation, entrepreneurship development and event management. Small Industries Development Bank of India (SIDBI) proposes to focus on greater and easier flow of credit through clusters while extending developmental support.

Credit rating agency for the SME sector. Rating is often suggested as a helpful instrument for MSMEs. SIDBI, in association with selected PSBs, has taken the initiative of setting up a specialised credit rating agency for the SME sector. The agency aims at providing affordable, credible and independent ratings to SMEs which would help enhance their credibility and standing. Most SMEs are not aware of the

benefits such as rating offered for their enterprises.

Innovation. Innovation is the catchword of the day. The demands on the MSMEs in terms of technology infusion, cloud computing, environmental-friendly processes and human resources (HR) intervention are on the rise. But availability of finance remains a problem area. The number of new units financed, per capita availability of credit, poor risk management, collateral dependence and high interest rate are factors mitigating against the interests of the MSMEs.

Venture capital. It aimed for new entrepreneurial ventures, which involve high risk, but at the same time promise high rewards. The

Table III

Year-wise Details of SSI/MSME Units Registered in Kerala During the period 2005-06 to 2011-12

Year	Number of SSI units	Total investment (₹ million)	Value of goods and services produced (₹ million)	Employment generated (numbers)
2005-06	5626	2117	10,076.8	28,128
2006-07	1849	2449.4	7157.5	13,474
2007-08	11,186	18,976.031	58,810.013	116,189
2008-09	8421	5659.483	13,215.538	48,111
2009-10	9322	7304.634	25,589.46	60,876
2010-11	10,882	14,536.553	47,866.981	84,878
2011-12	11,079	19,064.275	58,498.535	99,181

Table IV

Flow of Bank Credit to SMEs in Kerala

Year end-March	Trend of credit (₹ million)	Growth rate (per cent)
2005	409,480	—
2006	519,190	26.75
2007	642,730	23.79
2008	753,040	21.24
2009	828,190	9.97
2010	969,870	17.10
2011	1,219,820	25
2012	1,492,930	22.38

capital is made available in the form of equity and equity-related instruments. The institutions or investors providing venture capital assistance get deeply involved in the venture by providing necessary managerial and marketing support and networking opportunities.

Findings

After looking at Table II, it is clear that the number of small-scale units in India increased from 6.787 million units in the year 1990-91 to 32.56 million units in the year 2011-12. But Table III shows that in Kerala, the number of SSI units increased from 5626 in 2005-06 to 11,079 in 2011-12 and there is also

a decline in 2006-07, 2008-09 and 2009-10.

When analysing national scenario, the production in the SSI units was ₹ 635,180 million and the value of goods and services produced was ₹ 2117 million in 2005-06 and increased to 19,064.275 million by 2011-12.

At the national level, the number of employees was 15.834 million in the year 1990-91 and the number increased to 77.127 million in 2011-12. In Kerala, when analysing a period of seven years, employment generation was 28,128 in numbers in 2005-06 and declined to 13,747 in 2006-07 and was at 99,181 in 2011-12.

Table IV shows that in Kerala, access to bank credit to SMEs improved from ₹ 409,480 million in 2005 to ₹ 1,492,930 million in 2012. But the table shows a decline in growth rate from 26.75 per cent in 2006 to 22.38 per cent in 2012.

Suggestions

Financial assistance and training programmes through the industrial promotional agencies (IPAs) must be improved in order to generate employment opportunity.

Credit rating agencies need to improve their credibility and promote this awareness amongst entrepreneurs.

An effective monitoring mechanism, creation of credit rating facilities, adoption of standards for quality and environmental management, promotion of SME brands and development of appropriate capital markets can improve the situation.

The banks must become more liberal to strengthen the SMEs and efforts are needed to achieve a high degree of success by focussed programmes and policies.

Focus on cluster development and innovations must be encouraged.

Today, the state of the MSME sector in India indicates the need for much more innovative and solid development strategies.

Conclusion

SSI has emerged as a dynamic and vibrant sector of the economy. At the national level, this sector has performed extremely well and enabled our country to attain industrial amplification and diversification. SSIs have made an important contribution to increase in employment and production.

But, when analysing the position of Kerala, it can be noted that the amount of investment and the value of production has increased but, with respect to the amount of employment and the number of enterprises, a marginal decline has been observed. The total number of small enterprises does not show a real progress.

If the potential of SSI is properly harnessed, it can help in accelerating the pace of socio-economic development and balanced regional growth apart from creation of employment opportunities. It is very essential to develop the industrial sector of Kerala mainly through the development of SSI sector. ■

The author is a research scholar (commerce) at St. Joseph College, Irinjalakuda, Thrissur District, Kerala