



Research Paper

" Navigating Growth and Challenges: An In-Depth Analysis of India's Small-Scale Industries "

Dr. Chowdappa V A

Assistant Professor,

Department of P.G. Studies and Research in Economics,

Vijayanagara Sri Krishnadevaraya University,

Post Graduate Centre-Jnana Sarovara Campus,

Nandihalli, Sandur, Ballari-583119, Karnataka, India.

ABSTRACT

Small-scale industries have emerged as a vibrant and dynamic sector that contributes around 40 percent of the total industrial production and over 34 percent of the national exports to the Indian economy. The small-scale industries sector employs over 40 million people. Small-scale industries (SSIs) have played an imperative role in India's overall economic development, where millions of people are unemployed or underemployed. Poverty has become the most crucial problem for our country today. SSIs are essential in minimizing these problems by dividing employment with lower investment. Industrialization is necessary for rural areas because most of the population lives there. If industrialization starts in villages, then the impact of development is enormous. The establishment of industries mainly determines the country's economic growth. The SSI sector comprises 95 percent of the total industrial units in the country. The research paper focuses on the overall performance of the SSIs in India from 1990-91 to 2015-16 regarding the number of units registered, production recorded, employment generated, and export of goods. This paper also attempts to analyze the significance and opportunities of SSIs and barriers to developing SSIs and suggest some measures for improving their performance in India.

Keywords- SSIs, Economic Development, Opportunities, Barriers.

Received 20 Dec., 2023; Revised 01 Jan., 2024; Accepted 03 Jan., 2024 © The author(s) 2024.

Published with open access at www.questjournals.org

I. INTRODUCTION

Small-scale industries (SSIs) have become a dynamic and essential part of India's economy, contributing approximately 40% to its industrial output and over 34% to its exports. The SSI has a substantial source of employment, providing jobs to over 40 million people, which is crucial in a country grappling with high levels of unemployment and underemployment. SSIs have been instrumental in reducing poverty by offering employment opportunities that require relatively low investment. These industries are vital for rural India, where most of the population resides, as they can lead to significant developmental impacts when implemented at the village level.

The growth and prosperity of a nation are often closely linked to its industrial sector. In India, SSIs represent 95% of all industrial units. Their impact is profound due to their lower capital requirements and higher employment generation than more prominent industries. Furthermore, their operation doesn't necessitate advanced technology, making them suitable for areas where the workforce might not be equipped to handle high-tech operations.

Following independence, India's leaders quickly recognized the importance of SSIs in economic growth. They established a strong foundation for their rapid development with supportive policies and an institutional framework. From 1948 to 1991, the Indian government's industrial policy resolutions promoted the integrated growth of both large and small-scale sectors, acknowledging SSIs' social and economic contributions. The keys highlighted the government's focus on enhancing the role of cottage, village, and small-scale industries in the national economy, aiming for a decentralized sector robust enough to sustain itself and complement the large-scale industry.

II. SMALL-SCALE INDUSTRIES IN INDIA

Economic leaders recognize the critical role of small-scale industries (SSIs) in India, particularly in boosting employment, enhancing productivity, and fostering balanced regional development. Dr. Manmohan Singh noted that the small-scale sector is pivotal for employment growth. SSIs significantly contribute to the GDP, excel in export performance, and are essential in job creation. Their evolution and impact are tracked through various metrics, including the number of units, industry investment, production, employment, and exports. The scope of SSIs has expanded to include small-scale enterprises across diverse sectors. This broadened category encompasses businesses in the service sector catering to industrial needs alongside traditional SSIs. The Reserve Bank of India now adopts a more inclusive definition of SSIs, which includes: Small-scale industrial undertakings involve manufacturing, processing, and preservation, where investment in plant and machinery is under 50 million rupees.

Tiny enterprises have a plant and machinery investment cap of 2.5 million rupees.

Power looms.

Traditional industries, including village and household industries, rely on advanced artistry and techniques using essential tools.

Decentralized sectors like handlooms and handicrafts.

Service/business-related industries.

Food and agro-based industries.

The software industry.

As per the MSMED Act, 2006, micro, small, and medium enterprises are categorized based on investment in plant and machinery for manufacturing and equipment for service enterprises. The investment thresholds are defined as follows: Micro (up to 2.5 million rupees for manufacturing and 1 million for services), Small (up to 50 million rupees for manufacturing and 20 million for assistance), and Medium (up to 100 million rupees for manufacturing and 50 million for services). This classification reflects the evolving landscape of SSIs in India, highlighting their diverse nature and substantial economic contribution.

III. OBJECTIVES OF THE STUDY:

The study is based on the following objectives.

- Examine the role and impact of small-scale industries within the context of India's economy.
- Explore potential opportunities and areas for growth for small-scale industries in the Indian market.
- Investigate India's small-scale industry sector's development trajectory and overall performance.
- Identify the challenges facing small-scale industries and propose practical strategies for their advancement and improvement in India.

IV. RESEARCH METHODOLOGY

This descriptive analysis explores the role, growth, and development of Small Scale Industries (SSIs) in India from 1990-91 to 2015-16. The researcher met the study's objectives by using secondary data from books, journals, newspapers, RBI annual reports, and government publications. The paper evaluates the overall performance of SSIs during this period, examining aspects like the number of units registered, production levels, employment creation, and exports. Additionally, it delves into the significance, opportunities, and challenges SSIs face, proposing strategies to enhance their effectiveness in the Indian context.

V. SMALL-SCALE INDUSTRIES AND ECONOMIC DEVELOPMENT OF INDIA

Over the past seventy-five years since India's independence, the small-scale industries (SSIs) sector has emerged as a vital component of the nation's economy. This sector, encompassing SSI units and small-scale service and business enterprises (SSSBEs), now forms the broader small enterprise sector. SSIs have significantly contributed to India's gross domestic product (GDP), employment generation, and exports, accounting for nearly 40% of the total industrial output value.

a. **Employment Generation:** One of the critical issues facing the Indian economy is the growing population pressure on land and the urgent need to create extensive employment opportunities. SSIs, known for their labor-intensive nature, effectively address this challenge by generating many jobs, thereby acting as a robust tool for employment creation.

b. **Resource Mobilization and Entrepreneurial Skill:** SSIs are crucial in mobilizing savings and entrepreneurial skills, particularly in rural and semi-urban areas less affected by large industries. Investing in small-scale units, these industries utilize underexplored resources and enhance social welfare by harnessing untapped talent.

c. **Equitable Distribution of Income:** SSIs contribute to the impartial dispersal of income and wealth in Indian society, otherwise dominated by concentrated income and wealth in the organized sector. Due to their

widespread presence and significant employment potential, small industries help to mitigate income and wealth disparities.

d. **Regional Dispersal of Industries:** The concentration of industries in a few large cities has led to various issues like overcrowding and pollution. SSIs address this by utilizing local resources, promoting the dispersion of sectors across the country, and fostering balanced regional development.

e. **Development of Technology:** SSIs are adept at generating and adopting innovations, providing numerous opportunities for technological advancement. Entrepreneurs in small units are instrumental in commercializing new inventions and facilitating technology transfer, thereby enhancing the overall technological landscape of the economy.

f. **Promotion of Exports:** The SSIs sector has shown remarkable growth in exports, significantly increasing from ₹6979.7 million in 2000-01 to ₹8553.52 million in 2015-16. This growth not only boosts the country's foreign exchange reserves but also alleviates the pressure on its balance of payments.

g. **Supporting Large Industries:** SSIs are critical in supporting the growth of more prominent industries. They supply components, accessories, and semi-finished goods, ensuring larger enterprises' smooth functioning and development.

h. **Industrial Relations:** The SSIs are known for maintaining better relations between employers and employees. This positive relationship enhances employee efficiency and reduces the frequency of industrial disputes, strikes, or lockouts, contributing to a more stable and productive industrial environment.

In summary, the small-scale industrial sector's growth rate has outpaced other sectors regarding unit numbers, employment, investment, and exports, playing an indispensable role in India's economic growth and development.

VI. OPPORTUNITIES FOR SMALL-SCALE INDUSTRIES IN INDIA

The small industry sector in India has excelled, contributing significantly to the country's industrial growth and diversification. Characterized by its lower capital intensity and high labor absorption, this sector has been pivotal in promoting employment and fostering rural industrialization. The small-scale industry (SSI) sector is uniquely positioned to enhance India's traditional skills and knowledge by integrating new technologies, capital, and innovative marketing strategies. Now is an opportune moment for initiating projects in the SSI sector, with positive and promising prospects contingent on certain precautions. This optimism stems from a fundamental aspect of the Indian industry and market: the diversity in production systems and demand structures.

India's market uniquely sustains a long-term coexistence of various demand levels for consumer products, technologies, and processes. These markets, differentiated by quality, sophistication, and value addition, ensure a complementary presence for a wide range of business units. Government policies have been instrumental in promoting the SSI sector, enabling it to offer an extensive array of products, especially in the consumer goods segment. Nonetheless, challenges like limited access to capital, technology, and marketing have historically impeded the sector's growth. The ongoing liberalization process will likely facilitate the influx of these crucial resources into the industry.

The potential for growth in the SSI sector is amplified by various factors, including:

- Low capital requirements.
- Substantial government promotion and support.
- Reserved manufacturing categories for the SSI sector.
- Availability of detailed project profiles.
- Access to financing options and government subsidies.
- Ease of machinery and raw material procurement.
- Opportunities for workforce training.
- Development of technical and managerial skills.
- Support for tooling and testing.
- Government's reservation for exclusive purchases from SSIs.
- Export promotion initiatives.
- Growth in domestic market demand driven by overall economic expansion.
- Rising export potential for Indian products.
- Increasing demand for ancillary units due to the development of large-scale industrial units.

These elements underscore the significant and growing opportunities available in India's small-scale industry sector.

VII. GROWTH AND PERFORMANCE OF SMALL-SCALE INDUSTRIES IN INDIA

An enterprise is classified as a small-scale industrial (SSI) undertaking if its investment in fixed assets, specifically in plant and machinery, regardless of whether owned, leased, or obtained under hire purchase, does not surpass Rs 10 million. Over the years, as the Indian economy has evolved, the Government of India has periodically revised this investment ceiling, redefining the scope of the SSI sector. Tracing the historical changes, in 1970, the investment limit for SSIs was set at just Rs 7.5 lakh. This threshold was increased to Rs 10 lakh in 1975, followed by further increments to Rs 20 lakh in 1980, Rs 35 lakh in 1985, Rs 60 lakh in 1991, and a substantial jump to Rs 300 lakh in 1997. However, in 1999, there was a reduction in the limit, bringing it down to Rs 100 lakh. This figure remained unchanged for a considerable period until it was revised to Rs 50 million for the fiscal year 2017-18. These adjustments reflect the government's response to the changing economic landscape and its efforts to support and adapt the definition of small-scale industries accordingly.

Table 1 shows the present position of SSI units in India.

Year	Units (Million nos.)	Production (Rupees Billion)		Employment (Million nos.)	Production per employee (Rupees thousand)	SSI Export	
		At Constant Prices	At Current Prices			Rupees Billion	U.S. \$ million
1990-91	6.79	847.28	788.02	15.83	54	96.64	5386
1991-92	7.06	873.55	806.15	16.60	53	138.83	5632
1992-93	7.35	922.46	844.13	17.48	53	177.84	6140
1993-94	7.65	987.96	987.96	18.26	54	253.07	8068
1994-95	7.96	1087.74	1221.54	19.14	57	290.68	9258
1995-96	8.28	1211.75	1477.12	19.79	61	364.70	10903
1996-97	8.62	1348.92	1678.05	20.59	66	392.48	11056
1997-98	8.97	1462.63	1872.17	21.32	69	444.42	11958
1998-99	9.34	1575.25	2104.54	22.06	71	489.79	11642
1999-00	9.72	1703.79	2337.60	22.91	74	542.00	12508
2000-01	10.11	1844.01	2612.97	24.09	77	697.97	15278
2001-02	10.52	2822.70	2822.70	24.93	112	712.44	14938
2002-03	10.95	3067.71	3148.50	26.02	116	860.13	17773
2003-04	11.40	3363.44	3645.47	27.14	122	976.44	21249
2004-05	11.86	3729.38	4297.96	28.26	130	1244.17	27690
2005-06	12.34	4188.84	4978.42	29.49	140	1502.42	33935
2006-07	36.18	11988.18	135.14	80.52	149	1825.38	40309
2007-08	37.74	13227.77	14351.79	84.20	157	2020.17	50202
2008-09	39.37	13755.89	15242.35	88.08	156	-	-
2009-10	41.08	14883.52	16193.56	92.18	161	3911.59	82494
2010-11	42.87	16536.22	17215.53	96.52	171	5077.39	111403
2011-12	44.76	17885.84	18343.32	101.17	177	6301.05	131483
2012-13	46.75	18099.76	-	106.14	171	6981.66	128316
2013-14	48.86	-	-	111.43	-	8068.78	133364

2014-15	51.06	-	-	117.13	-	8492.48	138894
2015-16	.	-	-	.	-	8553.52	130651

(Source: RBI Annual Report)

The data represents critical metrics of the Small Scale Industry (SSI) sector over 25 years (1990-91 to 2015-16). The metrics include the number of units (in a million), production value (in Rupees billion at both constant and current prices), employment (in a million), production per employee (in Rupees thousand), and exports (in Rupees billion and U.S. dollars million).

Growth in Units and Production: There's a clear upward trend in the number of SSI units and their production value. This indicates a robust expansion of the SSI sector over the period. The growth in production value outpaces the change in the number of units, suggesting an increase in the number of SSIs and the productivity or output of these units.

Employment Growth: The data shows a consistent increase in employment within the SSI sector. This sector seems to have played a significant role in job creation over these years.

Increase in Production per Employee: The rising figures for production per employee indicate improvements in efficiency or productivity. This could be attributed to several factors, including technological advancements, skill development, and improved business processes.

Export Trends: The export values in both Rupees and U.S. dollars show an increasing trend, indicating the growing importance of the SSI sector in the global market. This could be due to better market integration, improved product quality, or competitive pricing.

Specific years, particularly post-2010, show substantial spikes in production values and exports, suggesting significant policy changes, market expansions, or macroeconomic factors influencing the SSI sector. The data gaps in later years (e.g., 2013-14, 2014-15) and incomplete data for 2015-16 limit the analysis for these periods. These gaps could significantly impact the accuracy of long-term trend analyses.

The SSI sector appears to significantly contribute to the economy, not just in production but also in providing employment. It could be a key area for policy focus to stimulate economic growth. The increase in productivity per employee suggests advancements in technology and skill levels within the sector. Research could explore the specific factors that led to these improvements. The growing export numbers indicate that the SSI sector is becoming more integrated with the global economy. This could be due to globalization, trade agreements, or improved quality of goods produced.

The data reflects the dynamic growth and increasing significance of the SSI sector in the economy. It highlights the sector's role in employment generation, production growth, and global trade. Further research could delve into the specific drivers of this growth, the challenges faced by the sector, and its future potential in the context of the evolving global economic landscape. Additionally, addressing the data gaps and updating the dataset would be crucial for a more comprehensive analysis.

VIII. PROBLEMS FACED BY THE SMALL-SCALE INDUSTRIES IN INDIA

SSIs in India could not progress satisfactorily due to various problems while running enterprises. Despite having huge potential, the major issues faced by SSIs are given below:

a) The problem of skilled workforce

The triumph of a small enterprise orbits around the entrepreneur and its employees, presenting the employees as skilled and efficient. Inefficient human factors and an unskilled workforce construct numerous puzzles for the persistence of small industries. The non-availability of an adequately trained workforce in the rural sector poses a problem for SSIs.

b) Inadequate credit assistance

Inadequate and untimely supply of credit facilities is a significant problem SSIs face. This is partly due to the scarcity of capital and partly due to the weak creditworthiness of the small units in the country.

c) Irregular supply of raw material

Small units face severe problems procuring raw materials, whether locally accessible or imported raw materials. The complications occur due to defective and improper supply of raw materials. Non-availability of an adequate quantity of raw materials, occasionally underprivileged quality of raw materials, amplified price of raw materials, foreign exchange crisis, and lack of knowledge of entrepreneurs regarding government policies are other hindrances for the small-scale sector.

d) Absence of organized marketing

Another significant problem small-scale units face is the absence of an organized marketing system. In the lack of organized marketing, their products compare unfavorably with the quality of the development of large-scale industrial units. They also fail to know enough about consumers' choices, tastes, and product preferences. The above obstacles did not allow them to remain in the market.

e) Absence of machinery and equipment

Small-scale units struggle to use advanced machinery and equipment in their making method to compete with large industries. However, most small units utilize outdated and traditional technology and equipment. The lack of appropriate technology and equipment creates a major stumbling block for the growth of SSIs.

f) Lack of sufficient infrastructure

Indian economy is illustrated by insufficient infrastructure, which is a substantial problem for small units to expand. Most small branches and industrial estates in towns and cities have one or more situations like lack of power supply, water and drainage problems, poor roads, raw materials, and marketing problems. Thus, the absence of adequate infrastructure adversely affects the enterprises' quality, quantity, and production schedule, ultimately resulting in the underutilization of capacity.

g) Competition with large-scale units and imported articles

Small-scale units find it difficult to compete with large-scale units and imported articles that are comparatively cheap and of better quality than products manufactured and produced by small-scale units.

h) Other problems

Besides the above problems, small-scale units have been constrained by several other issues, including poor project planning, managerial inadequacies, old and orthodox designs, and a high degree of obsolescence.

IX. SICKNESS IN SCALE INDUSTRIES UNITS IN INDIA

Industrial sickness is an accepted phenomenon in the growth and development of any industrialized economy. But the condition should not persist beyond a particular limit, or the economy will suffer. The productive resources were wasted, production dipped, and employees were thrown out of jobs; the industrial sickness would cause agony not only to the financial institutions but also to the economic and social systems. As per the Table of Sick Units, the number of sick SSI units was 249,630 in 2001, which decreased continuously up to 2005 to 138,041 units. The number of sick units decreased from 126,824 in 2006 to 85,591 in 2012. Again, this number increased to 534844 in 2015 and fell to 480280 in 2016. The amount outstanding on the total sick units ranges from ` 45.06 million in 2000-01 to ` 67.90 million in 2011-12 and then increased to 326.74 million in 2016. Most of the sick units in the SSI sector are beyond redemption and waiting for a safe exit. The data amply explain the damage caused to the economy and financial institutions. Millions of employees are thrown out of jobs from these failed units, playing havoc on the lives of poor people.

TABLE 2 SHOWS THE SSIs SICK UNITS FROM 2000 TO 2016

Year	SSI Sick Units	Amount Outstanding
2000	304235	46.08
2001	249630	45.06
2002	177336	48.19
2003	167980	57.06
2004	138811	52.85
2005	138041	53.8
2006	126824	49.81
2007	126824	49.81
2008	85187	30.82
2009	103996	36.19
2010	77723	52.33
2011	90141	52.11
2012	85591	67.9
2013	220492	124.42
2014	465492	263.11
2015	534844	257.14
2016	480280	326.74

(Source: RBI annual reports)

X. SUGGESTIONS

1. Small-scale sectors are core industrial sectors in industrialization due to the government's focus on improving infrastructural facilities.
2. The government should promote export-oriented small-scale industries with the help of simulative and concessional packages.
3. Industrialization is a critical component of the Indian economy, so the central government should determine innovative and different industrial policies for small, medium, and large-scale industries
4. SSIs should concentrate more on an internal and specific environment. This means improving accounting procedures, technology up-gradation, product improvement, work culture, etc.
5. Financial assistance and training programs through the industrial promotional agencies (IPAs) must be improved to generate employment opportunities.
6. Credit rating agencies need to improve their credibility and promote this awareness amongst entrepreneurs. An effective monitoring mechanism, creating credit rating facilities, adopting quality and environmental management standards, promoting SME brands, and developing appropriate capital markets can improve the situation.
7. The banks must become more liberal to strengthen the SSIs, and efforts are needed to achieve high success through focused programs and policies.
8. Focus on cluster development and innovations must be encouraged.
9. Today, the state of the SSI sector in India indicates the need for much more innovative and solid development strategies.

XI. CONCLUSION

The small-scale industrial sector contributes to increased industrial productivity and the rise of national exports, generating more employment opportunities. This sector also contributes very impressively to the GDP. Because of this, the government of India has rightly recognized SSIs as the engine of growth for the present millennium. For sustainable development of the small-scale industrial sector, top priority should be given to financial support to SSIs. SSIs have significantly contributed to employment and industrialization in rural areas by their less capital-intensive and high-labor absorption nature. This division is perfectly fitted to develop our conventional skills and knowledge by infusing technologies, capital, and innovative marketing practices. The small-scale industry has emerged as a dynamic and vibrant sector of the Indian economy due to the new reforms.

REFERENCES

- [1]. Annual Reports of Development Commissioner MSME, 2008-2012.
- [2]. Annual reports of RBI
- [3]. Chandra, Prabha, Bohra. (2018). Functional Challenges of the Small Scale Industries – An Analytical Approach. The International Journal of Management, doi: 10.18843/IJMS/V5I2(6)/06.
- [4]. K., B., Dhore. (2015). Opportunities and challenges for small-scale industries of India in a global economy.
- [5]. K., Shobha. (2012). Small scale industries in India- An analysis. International Journal of Management, IT and Engineering.
- [6]. Narra, Nagaraju. (2016). Emerging Opportunities and Challenges For Small Scale Industries in an Emerging Indian Economy. International journal of scientific research.
- [7]. P., T., Dinesha., Jayasheela., V., Basil, Hans. (2008). Micro, Small and Medium Enterprises in India: Trends and Challenges:. doi: 10.1177/0970846420080204.
- [8]. P.S. Subbarao, Entrepreneurship and Small Business Management, Discovering Publishing House, New Delhi, 2001.
- [9]. Pratiyogita Darpana, 2011.
- [10]. R.N. Misra, Problems and Prospects of Small Industries, Discovering Publishing House, New Delhi, 2005.
- [11]. S, Anand., Murugaiah. (2006). Small Scale Industries In India: An Evaluation Of Performance In The Post-Liberalized Scenario. The IUP Journal of Managerial Economics.
- [12]. S., Dubey. (2023). Financing of Small-Scale Industries in India: A Survey of Literature. International Journal For Science Technology And Engineering, doi: 10.22214/ijraset.2023.53750
- [13]. Subhamoy, Banik. (2018). A Study on Financial Performance Evaluation of Small Scale Industries: Impact and Issues. Social Science Research Network, doi 10.2139/SSRN.3162522.
- [14]. www.msme.com