

## **An Important Role of Small Scale Industries and its Impact on Indian Economy**

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### **ABSTRACT:**

Small Scale Industries (SSI) plays an important role for the development of Indian economy in many ways. About 60 to 70 percent of the total innovations in India come from the SSIs. Many of the big businesses today were all started small and then nurtured into big businesses. The small scale industries sector contributes significantly to the manufacturing output, employment and exports of the country. Small scale industry (SSI) is a term which applies to the small entrepreneurs who are engaged in manufacture and production on a micro scale. The SSI sector continues to remain an integral part of Indian economy with significant contribution to Gross Domestic Product (GDP), industrial production and employment generation in India. Small scale industries play a focal role in the economic and social development of India in the post-independence era. Small scale industries constitute the backbone of a developing economy with its effective, efficient, flexible and innovative entrepreneurial spirit. The SSI sector continues to remain an integral part of Indian economy with significant contribution to GDP, industrial production and employment generation in India. The importance of Micro, Small and Medium Enterprises (MSME) has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy.

**Keywords:** Small Scale Industries (SSI), Gross Domestic Product (GDP), Micro, Small and Medium Enterprises (MSME), Employment, Entrepreneurship

### **INTRODUCTION**

Industry is the segment of economy concerned with production of goods. Small scale industry (SSI) is a term which applies to the small entrepreneurs who are engaged in manufacture and production on a micro scale. It mainly refers to agro- based rural industry which doesn't require huge capital influx and large infrastructure. These SSI also include the indigenous cottage industry and the handicrafts industry. The development of small scale industries is very important for a country like India which has mainly rural economy. These SSI which are mainly agro- based in nature would provide job for millions of Indians and would contribute largely to the overall growth of the Indian economy.

The SSI sector continues to remain an integral part of Indian economy with significant contribution to GDP, industrial production and employment generation in India. Worldwide, the SSIs have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment

potential at low capital cost. The labour intensity of the SSI sector is much higher than that of the large enterprises.

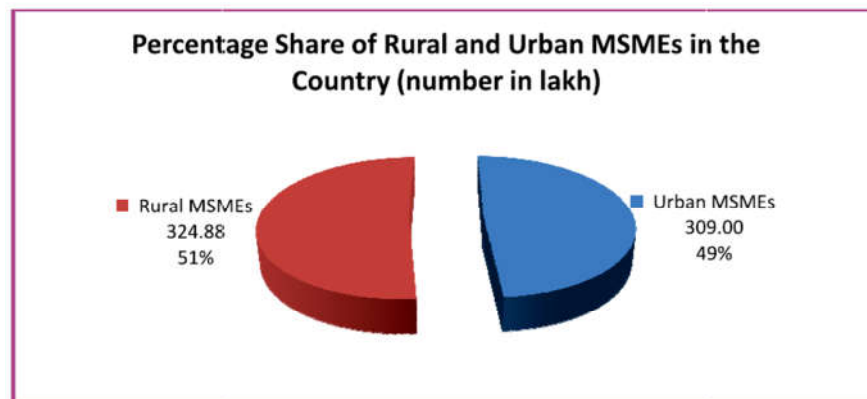
### ROLE OF MSMEs IN INDIAN ECONOMY:

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

**Table 1: Contribution of MSMEs in Country's Economy at Current Price**

(Figures in Rs. Crores adjusted for FISIM <sup>3</sup> at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

[Source: Central Statistics Office (CSO), MSME-Annual Report 2017-18]



**Fig.1. Percentage Share of Rural and Urban MSMEs in the country**  
[Source: Central Statistics Office (CSO), MSME-Annual Report 2017-18]

**Table 2: Distribution of Enterprises Category Wise (Numbers in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

[Source: Central Statistics Office (CSO), MSME-Annual Report 2017-18]

## EMPLOYMENT:

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs( 360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. Table 3 shows the distribution of MSMEs activity wise:

**Table 3: Estimated Employment in MSME Sector (Broad Activity Category Wise)**

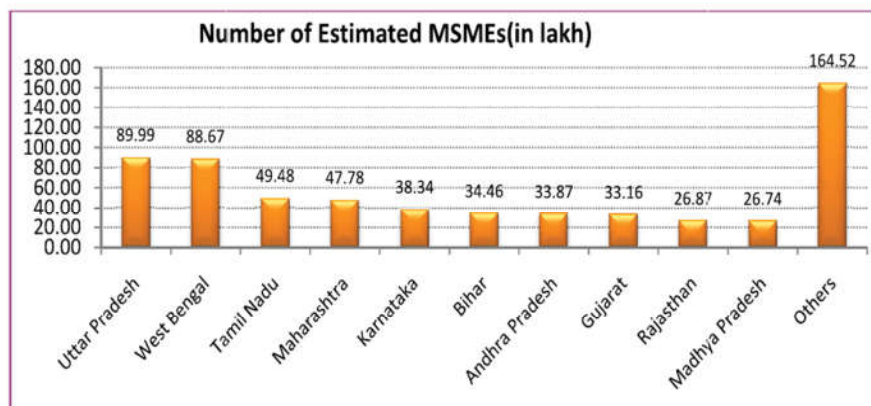
Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

\*Non-captive electricity generation and transmission

[Source: Central Statistics Office (CSO), MSME-Annual Report 2017-18]

## STATE-WISE DISTRIBUTION OF ESTIMATED MSMEs:

State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes as close second with a share of 14% again. The top 10 States together accounted for a share of 74.05% of the total estimated number of MSMEs in the country. Figure 2 show the distribution of estimated enterprises in top ten States.



**Fig.2. Distribution of MSMEs in Top Ten States**

[Source: Central Statistics Office (CSO), MSME-Annual Report 2017-18]

## ROLE OF SSI IN ECONOMIC DEVELOPMENT IN INDIA:

The small- scale industrial sector has recorded a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. During the last decade alone, the SSI sector has progressed from production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipments, T.V. sets etc.

**Table 3: COMPONENTS OF GROSS VALUE ADDED At Basic Prices**

GVA at Basic Prices (Base Year : 2011-12) Current Prices							
Items/Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6	7	8
Agriculture, Forestry and Fishing	15019.47	16751.07	19263.72	20936.12	22253.68	24840.05	25947.29
<b>Industry</b>	<b>18576.89</b>	<b>20740.29</b>	<b>22694.01</b>	<b>24691.03</b>	<b>27543.26</b>	<b>30256.48</b>	<b>32926.94</b>
Mining & Quarrying	2610.35	2858.42	2957.94	3084.76	3012.30	3329.47	3746.89
Manufacturing	14099.86	15728.37	17134.52	18783.69	21161.19	23292.20	25303.11
Electricity, Gas, Water Supply & Other Utility Services	1866.68	2153.50	2601.55	2822.58	3369.78	3634.82	3876.94
<b>Services</b>	<b>47473.10</b>	<b>54535.57</b>	<b>61673.80</b>	<b>69415.65</b>	<b>75869.52</b>	<b>83319.38</b>	<b>92949.48</b>
Construction	7773.35	8493.65	9214.70	9790.86	9922.98	10284.63	11189.46
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	14131.16	16639.86	18744.67	21075.97	23032.49	25218.13	28097.48
Financial, real estate & professional services	15308.77	17766.32	20695.08	23633.47	26312.84	28573.22	31645.47
Public Administration, Defence and Other Services	10259.82	11635.74	13019.35	14915.36	16601.20	19243.39	22017.07
<b>GVA at Basic Prices</b>	<b>81069.46</b>	<b>92026.92</b>	<b>103631.53</b>	<b>115042.79</b>	<b>125666.46</b>	<b>138415.91</b>	<b>151823.71</b>

[Source: Reserve Bank of India, Handbook of Statistics on the Indian Economy 2017-18]

**Table 4: Components of Gross Domestic Product**

(Base Year : 2011-12) Current Prices							
Items/Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6	7	8
Private Final Consumption Expenditure	49104.47	56144.84	64756.49	72473.40	80912.49	90049.04	99144.01
Government Final Consumption Expenditure	9683.75	10624.04	11565.09	13017.62	14278.35	16638.36	19084.20
Gross Fixed Capital Formation	29977.33	33249.73	35156.21	37503.92	39182.37	43524.98	47788.94
Changes in Stocks	2079.83	2145.24	1446.21	3126.98	2547.86	1001.52	1070.33
Valuables	2530.33	2737.75	1617.61	2094.07	2028.83	1764.47	2521.42
Exports of Goods and Services	21439.31	24397.07	28567.81	28636.36	27286.41	29462.43	31945.07
Import of Goods and Services	27155.54	31084.28	31918.11	32359.62	30449.15	32085.05	36942.86
Discrepancies	-296.20	1225.74	1143.89	186.87	1853.21	2181.38	3120.33
<b>Gross Domestic Product</b>	<b>87363.29</b>	<b>99440.13</b>	<b>112335.22</b>	<b>124679.59</b>	<b>137640.37</b>	<b>152537.14</b>	<b>167731.45</b>

[Source: Reserve Bank of India, Handbook of Statistics on the Indian Economy 2017-18]

### IMPORTANT ROLE OF SMALL SCALE INDUSTRIES IN INDIAN ECONOMY:

Small Scale Industries (SSI) plays an important role for the development of Indian economy in many ways. About 60 to 70 percent of the total innovations in India come from the SSIs. Many of the big businesses today were all started small and then nurtured into big businesses. The following roles are briefly explained of SSIs in economic development of the country:

### SMALL SCALE INDUSTRIES PROVIDES EMPLOYMENT:

- SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
- It provides employment to skilled and unskilled people in India.

- The employment capital ratio is high for the SSI.
- SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
- SSI accounts for employment of people in rural sector and unorganized sector.

#### **SSI FACILITATES WOMEN GROWTH:**

- It provides employment opportunities to women in India.
- It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

#### **SSI BRINGS BALANCED REGIONAL DEVELOPMENT:**

- SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.
- It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.
- It plays an important role by initiating the government to build the infrastructural facilities in rural areas.
- The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.
- It promotes urban and rural growth in India.
- It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas.
- It helps in improving the standard of living of people residing in suburban and rural areas in India.

#### **SSI HELPS IN MOBILIZATION OF LOCAL RESOURCES:**

- It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.
- It helps to improve the growth of local entrepreneurs and self-employed professionals in small towns and villages in India.
- It paves way for promoting traditional family skills and handicrafts. There is a great demand for handicraft goods in foreign countries.

#### **SSI PAVES FOR OPTIMISATION OF CAPITAL:**

- SSI requires less capital per unit of output. It provides quick return on investment due to shorter gestation period. The payback period is quite short in small scale industries.
- It encourages the people living in rural areas and small towns to mobilize savings and channelize them into industrial activities.
- SSI functions as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.



**SSI PROMOTES EXPORTS:**

- SSI earns valuable foreign exchange through exports from India.
- SSI does not require sophisticated machinery. Hence, it is not necessary to import the machines from abroad and there is a great demand for goods produced by small scale sector. Thus it reduces the pressure on the country's balance of payments.

**SSI COMPLEMENTS LARGE SCALE INDUSTRIES:**

- SSI provides parts, components, accessories to large scale industries and meets the requirements of large scale industries through setting up units near the large scale units.
- SSI plays a complementary role to large scale sector and supports the large scale industries.
- It serves as ancillaries to large Scale units.

**SSI MEETS CONSUMER DEMANDS:**

- SSI meets the demand of the consumers without creating a shortage for goods. Hence, it serves as an anti-inflationary force by providing goods of daily use.
- SSI produces wide range of products required by consumers in India.

**SSI ENSURES SOCIAL ADVANTAGE:**

- SSI provides employment to people and pave for independent living.
- SSI helps in the development of the society by reducing concentration of income and wealth in few hands.
- SSI helps the people living in rural and backward sector to participate in the process of development.
- It encourages democracy and self-governance.

**DEVELOPS ENTREPRENEURSHIP:**

- Development of small scale industries helps to increase the per capita income of India in various ways.
- It helps to develop a class of entrepreneurs in the society. It helps the job seekers to turn out as job givers.
- Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants of the society.
- It promotes self-employment and spirit of self-reliance in the society.
- It facilitates development of backward areas and weaker sections of the society.

**CONCLUSION:**

The Small Scale Industry today constitutes a very important segment of the Indian economy. The SSI sectors have recorded significant growth and impressive performance. Identifying and analyzing the growth, in employment, production and exports of SSI, also helping the government in formulating SSI policy to revive the sick units by promoting better performance. Examine the role of SSI in employment generation in rural areas. Small Scale Sector has emerged as a dynamic and vibrant sector of the economy. Today, it accounts for nearly 35% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. The furtherance and advancement of SSIs is essential for the

development of Indian economy to achieve impartial distribution of income and wealth, economic self-dependence and economic sustainable developments. To boost the SSI sector so that it can take deserved place in the growth mechanism of Indian economy, it is essential to support MSMEs by educating them to make optimum utilisation of inbuilt capacity to be successful both under human and economic activity.

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