SMALL SCALE SECTOR AND ITS ROLE IN THE ECONOMIC DEVELOPMENT

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ABSTRACT

Small scale sector is playing an important role in the economic development of the developing countries. The reason being, these economies do not have adequate resources to built strong industrial base by setting up large scale industries. Moreover, these economies lacks strong human capital base and whatever manpower is available in the country can be better utilized in small scale sector. This sector helps in generating gainful employment opportunities in these economies. This sector contributes towards the export in the country. It helps in solving the problem of balance of payment in the economy. Small scale sector maintains better rapport between employer and employees thereby maintaining better industrial relations in the economy. Keeping in view the significance of small scale sector, in this paper an attempt has been made to analyze the problem of demand estimation faced by entrepreneurs. It becomes more imperative in the era of free market economies, where tastes and preferences of the people changes rapidly. Without strong knowledge of this area, small scale sector cannot move in the right direction.

Introduction

Small scale sector is playing an important role in the economic development of the developing countries. The reason being, these economies do not have adequate resources to built strong industrial base by setting up large scale industries. Moreover, these economies lacks strong human capital base and whatever manpower is available in the country can be better utilized in small scale sector. This sector helps in generating gainful employment opportunities in these economies. This sector contributes towards the export in the country. It helps in solving the problem of balance of payment in the economy. Small scale sector maintains better rapport

between employer and employees thereby maintaining better industrial relations in the economy. Keeping in view the significance of small scale sector, in this paper an attempt has been made to analyze the problem of demand estimation faced by entrepreneurs. It becomes more imperative in the era of free market economies, where tastes and preferences of the people changes rapidly. Without strong knowledge of this area, small scale sector cannot move in the right direction.

The small scale sector has played a very important role in the socio-economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of the Gross Domestic Product (GDP), employment generation and exports. The performance of the small scale sector, therefore, has a direct impact on the growth of the overall economy.

India witnessed a remarkable growth of small-size enterprises in India since independence. In manufacturing sector Small and Medium Enterprises (SMEs) have a vital position because of their creative role in employment generation and earnings and struggle against provincial inequalities. SMEs policies have witnessed change due to New Economic Policy 1991, but even in the early 1980's SMEs policies were revised so to adapt with changing external environment. Change in policies accentuated on significance of the globalization of commerce and mutual dependence in many areas such as modernizing functions, teaching, promotion and commercial course of action. To achieve equality in growth, SMEs have played an active role as they create massive employment opportunities in the rural and semi-urban area and thus minimize inequalities in different state and provinces. Small scale industries have served domestic as well as international market at a realistic cost. Indian government to protect its newly developed indigenous industries and to minimize import, Indian official embarked a route of trade and industry reforms of correction in its economic policy but unremitting to shelter its small-size enterprises. This new strategy focused on external accustom, contest and partnership with internal and external organizations, the strategy outline confirms the latest noticeable variation in spotlight. In view of these assumptions, we try to find out the contribution of small-size enterprises in growth of Indian economy and to ascertain if their prospects are weakened or strengthened.

History of Small Scale Industry (SSI)

During the period of 2001-02, the small scale sector was under the purview of two separate ministries - Ministry of Small Scale Industries and Ministry of Agro and Rural Industries (SSI & ARI). Both these ministries served as the nodal agencies for formulating policies, assisting states and implementing the initiatives of the Centre to promote growth and development of small scale units in an increasingly market-led economy. These two were bifurcated in 2001 from a combined set up of Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) established in 1999. Throughout this time frame, tiny and small units were constrained by an upper limit on investment in plant & machinery. The tiny units were defined as those with an investment of up to Rs. 25 lakhs and small units as ones with an investment of more than Rs. 25 lakhs but less than Rs. 1 crore. The inflow of foreign direct investment (FDI) was permitted only up to a cap of 24%. Further, the ministry identified a separate list of medium enterprises belonging to high-tech and export oriented industries, allowing them investment in plant & machinery up to Rs. 5 crore for technological upgradation.

In 2006, the definition of SSI was elaborated with the passage of the Micro, Small and Medium Enterprises Development (MSMED) Act. The Act aimed at providing an exclusive comprehensive legislation for facilitating development and competitiveness of small scale enterprises. Following the world-wide practice, this Act administered the concept of "enterprise" constituting of manufacturing units as well as service entities to address the concerns of the composite sector jointly. Moreover, it pioneered the task of bringing medium along with micro and small segments under a single umbrella with the aim of integrating the three grades of enterprises. For the units engaged in manufacturing activities, the investment limit in plant & machinery for both small and medium units was revised upwards, keeping it same for the micro sector. The upper limit for investment was extended from Rs. 1 crore to Rs. 5 crore for small and from Rs. 5 crore to Rs. 10 crore for medium enterprises. Additionally, separate investment ranges in equipment of Rs. 10 lakhs for micro, Rs. 2 crore for small, and Rs. 5 crore for medium were defined for the service entities. The restricted cap of 24% on FDI was also abandoned, keeping the sectoral caps relevant.

The President under Notification 9th May 2007 has amended the Government of India (Allocation of business) Rules 1961, Pursuant to this amended Ministry of Agro and rural Industries (Krishi Evam Gramin Udyog Mantralay) and ministry of SSI (Laghu Udoyag Mantralay) have been merged into a single Ministry, namely, Ministry of Micro Small & Medium Enterprises (Suksham Laghu Aur Medium Udyam Mantralay)

MSMEs and Employment

Table: 1.1 shows that the performance of small scale units (MSMEs) in terms of employment has been increased during the period of 1990-91 to 1999-2000. But in the year 2000-01, there was a inclined increase of 26.19 percent and suddenly, it has an enormous decrease of 13.84 percent during the 2001-02. After that, it has increased consistently with around 4 percent during the subsequent four years. Moreover, in the year 2006-07, the data of Micro, Small and Medium units has been included in the small scale units and shows a steep inclined growth rate of 101.62 percent. Finally no doubt compiling of data has some impact and this year was a revolutionizing year in the growth of SME. After that, the employment in SSIs has showing a constant increase of around 5 percent during the four subsequent years.

On the other hand, during the overall period of 1990-91 to 2010-11, the employment has been increasing with significant CAGR (compound annual growth rate) 7.60 percent having explained variance of 85.10 percent (R^2 = .851). In other words, the future prediction about employment generation is 85.10 percent correct in this model. Hence, it is concluded from the explained variance that 14.90 percent unexplained variance arise due to economic fluctuations which affects the establishment and locked up of SSI units because of sickness. The significant value of slope coefficient (b_1= 0.076) and F (108.889) reveal that the exponential regression and CAGR are significant. Therefore, the future prediction of number of units is possible and significant at 1 percent.

Table: 1.1
Performance of MSMEs in Employment
(Million)

Sr. No.	Year	Employment	% change
1	**1990-91**	158.34	-
2	**1991-92**	165.19	4.33
3	**1992-93**	174.84	5.84
4	**1993-94**	182.64	4.46
5	**1994-95**	191.40	4.80
6	**1995-96**	197.93	3.41
7	**1996-97**	205.86	4.01
8	**1997-98**	213.16	3.55
9	**1998-99**	220.55	3.47
10	**1999-00**	229.10	3.88
11	**2000-01**	289.09	26.19
12	**2001-02**	249.09	-13.84
13	**2002-03**	260.21	4.46
14	**2003-04**	271.42	4.31
15	**2004-05**	282.57	4.11
16	**2005-06**	294.91	4.37
17	**2006-07**	594.61	101.62
18	**2007-08**	626.34	5.34
19	**2008-09**	659.35	5.27
20	**2009-10**	695.38	5.46
21	**2010-11**	732.17	5.29
CAGR	**7.60**		
R^2	**.851**		
Adj. R^2	**.844**		
b_1	**0.076***		
t	**10.435***		
F	**108.889***		

Source: Economic Survey (1990-91 to 2012-13)
Ministry of MSME website
**- indicates the level of significance at 1%*

MSMEs in terms of Production

A close perusal of Table: 1.2 indicate that the performance of small scale units (MSMEs) in terms of production has been continuously increased with fluctuated rate during the period of

1990-91 to 2005-06. Subsequently, in the year 2006-07, the data of Micro, Small and Medium units has been included in the small scale units and shows a steep inclined growth rate of 42.49 percent. Finally no doubt compiling of data has some impact and this year was a revolutionizing year in the growth of SME. After that, the investment in SSIs has showing a constant increase of around 10-12 percent during the four subsequent years.

On the other hand, during the overall period of 1990-91 to 2010-11, the production of SSI units has been increasing with significant CAGR (compound annual growth rate) 14.70 percent having explained variance of 99.10 percent (R^2 = .991). In other words, the future prediction about production of SSI units is 99.10 percent correct in this model. Hence, it is concluded from the explained variance that 0.90 percent unexplained variance arise due to economic fluctuations which affects the establishment and locked up of SSI units because of sickness. And the production of SSIs is more consistent. The significant value of slope coefficient (b_1= 0.137) and F (2040) reveal that the exponential regression and CAGR are significant. Therefore, the future prediction about production of SSIs is possible and significant at 1 percent.

Table: 1.2
Performance of MSMEs in terms of Production
(Rs. in crores)

Sr. No.	Year	Production	% change
1	**1990-91**	78802	-
2	**1991-92**	80615	2.30
3	**1992-93**	84413	4.71
4	**1993-94**	98796	17.04
5	**1994-95**	122154	23.64
6	**1995-96**	147712	20.92
7	**1996-97**	167805	13.60
8	**1997-98**	187217	11.57
9	**1998-99**	210454	12.41
10	**1999-00**	233760	11.07
11	**2000-01**	261297	11.78
12	**2001-02**	282270	8.03
13	**2002-03**	314850	11.54
14	**2003-04**	364547	15.78
15	**2004-05**	429796	17.90
16	**2005-06**	497842	15.83

17	**2006-07**	709398	42.49
18	**2007-08**	790759	11.47
19	**2008-09**	880805	11.39
20	**2009-10**	989919	12.39
21	**2010-11**	1095758	10.69
CAGR	**14.70**		
R^2	**.991**		
Adj. R^2	**.990**		
b_1	**0.137***		
t	**45.161***		
F	**2040***		

Source: Economic Survey (1990-91 to 2012-13)
Ministry of MSME website
**- indicates the level of significance at 1%*

Performance of MSMEs in terms of Exports

It is concluded from Table: 1.3 that the performance of small scale units (MSMEs) in terms of exports has increased of 52.56 percent during the period of 1991-92. This shows the clear impact of industrial policy 1991 on exports of SSIs and after that, it has increased continuously upto the year of 2007-08. Although, there is no impact of the year 2006-07, in which, Micro, Small and Medium units has been included in the small scale units. Because only registered units can exports the goods and there is large number of unregistered and unexported medium scale units included in this category after the announcement of MSMED Act, 2006.

On the other hand, during the overall period of 1990-91 to 2010-11, the exports of SSI units has been increasing with significant CAGR (compound annual growth rate) 17.70 percent having explained variance of 97.80 percent (R^2 = .978). In other words, the future prediction about exports of SSI units is 97.80 percent correct in this model. Hence, it is concluded from the explained variance that 2.20 percent unexplained variance arise due to economic fluctuations which affects the establishment and locked up of export oriented SSI units because of sickness. The significant value of slope coefficient (b_1= 0.163) and F (703.90) reveal that the exponential

regression and CAGR are significant. Therefore, the future prediction about exports of SSI units is possible and significant at 1 percent.

Table: 1.3
Performance of MSMEs in terms of Exports
(Rs. in crores)

Sr. No.	Year	Exports	% change
1	1990-91	9100	-
2	1991-92	13883	52.56
3	1992-93	17784	28.10
4	1993-94	25307	42.30
5	1994-95	29068	14.86
6	1995-96	36470	25.46
7	1996-97	39248	7.62
8	1997-98	44442	13.23
9	1998-99	48979	10.21
10	1999-00	54200	10.66
11	2000-01	69797	28.78
12	2001-02	71244	2.07
13	2002-03	86013	20.73
14	2003-04	97644	13.52
15	2004-05	124417	27.42
16	2005-06	150242	20.76
17	2006-07	182538	21.50
18	2007-08	202017	10.67
19	2008-09		
20	2009-10		
21	2010-11		
CAGR	17.70		
R^2	.978		
Adj. R^2	.976		
b_1	0.163*		
t	26.531*		
F	703.90*		

Source: *Economic Survey (1990-91 to 2012-13)*
Ministry of MSME website
**- indicates the level of significance at 1%*

MSMEs and Overall Industrial Sector

The MSE sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the comparative data on growth rates of production for both the sectors during last five years as shown in the below: -

Table: 1.4
Comparative Growth Rates of MSE Sector

Year	Growth Rate of IIP** (base1970) (%)	Growth Rate of IIP (base 2001-02) (%)	IPP (Overall Industrial Growth Rate of Sector) (%) #
2002-2003	7.68	8.68	5.7
2003-2004	8.59	9.64	7.0
2004-2005	9.96	10.88	8.4
2005-2006	10.40	12.32	8.1
2006-2007	NA	12.60	11.5
2007-2008	NA	13.00	8.0

 # Source- M/o Statistics and PI website http://www.mospi.gov.in
*** : IIP - Index of Industrial Production*

Table 1.4 depicts that the index of Industrial production for the MSME has a gradual increase in the industrial production from year 2002-2008. If we take 1970 as the base year then the growth of IIP takes place from 7.68% in 2002-03 to 10.40% in 2005-06. However if we convert the same to the base of 2001-02 then, it shows an increasing trend from 8.68% in 2002 to 12.32 % in 2005-06 and finally at 13.0 % in the year 2007-08.

One thing quite noteworthy is that although the trend of IIP shows an increasing trend from year 2004-05 to 2005-06 in both the cases but its overall contribution to IPP decreases from 8.4% in 2004-05 to 8.15 in 2005-06. Again in year 2006-07, due to compilation of data for micro, small and medium industries it shows an increasing trend of 11.5% but in year 2007-08, it again declines to 8%. Although the IIP was highest for year 2007-08 but its contribution to IPP was declined to 8%.

Contribution of MSMEs in GDP

Table: 1.5 show that the total Industrial Production and its contribution in Gross Domestic production have a continuous declining trend from 39.74% in 2000 to 38.5 in 2006.

Table: 1.5
Contribution of MSMEs in GDP

Year	Total Industrial Production (%)	Gross Domestic Product (GDP) (%)
1999-2000	**39.74**	**5.86**
2000-2001	**39.71**	**6.04**
2001-2002	**39.12**	**5.77**
2002-2003	**38.89**	**5.91**
2003-2004	**38.74**	**5.79**
2004-2005	**38.62**	**5.84**
2005-2006	**38.56**	**5.83**
2006-2007**	**44.12**	**7.44**
2007-2008**	**45.00**	**8.00**

Source: website of MSME
***The data for the period upto 2005-06 is only for small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being reflected.*

However its contribution to Gross domestic production would show varying trend. In year 2001 it shows an increasing trend to 6.04% from 5.86% in year 2000, then it again declines in year 2002 to 5.77% after which are regained momentum in year 2003 and becomes 5.91%. After compilation of data in 2006-07 its overall contribution to GDP was 7.44% which in 2007-08 increases to 8%.

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