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**EMPLOYMENT, INVESTMENT AND
PRODUCTION OF SSI SECTOR IN PRE AND
POST LIBERALIZATION PERIOD**

Employment, Investment and Production of SSI Sector in Pre and Post Liberalization Period

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Abstract – It can be observed that the production of small scale industries which was Rs. 78,882 crore in 1990-91, rose upto a level of Rs. 6,95,126 cr., indicating a growth of nine times in just 18 years. The table shows that this sector was giving employment to 158.34 lakhs of people in 1990-91, this employment increased to a level of 322.28 lakhs in 2007-08. The percentage growth rate which was just 2.3 percent over last year in 1991-92 went upto 18.3 percent in 2007-08. The study further brings out the impact of liberalization on growth in number of units, employment level in SSI sector, production (at constant prices), fixed investment and the value of plant and machinery from the year 1981 to year 2008. The data in regard to share of SSIs in total exports from India are presented in Table. It is obvious from the table that contribution of SSI sector in the total exports from India during pre-liberalization period had ranged from 22 to 29 per cent. However, its share rose to 30 percent in 1990-91 and 36.4 percent in 1993-94. However, its share came down slightly in next three years. The share in exports went up to 38.2 percent in the year 1997-98. What attracts our attention is the stagnation in the percentage share of SSI sector in the total exports during the recent years. That is, the percentage share of SSI in the total exports has been hovering between 33 to 35 percent since 1999. Table 4.3 also exhibits that total exports have registered relatively

Key Words: Small Scale Industries, Liberalization, SSI Sector, Production.

INTRODUCTION

India initiated the process of financial sector reforms in 1991 with the objective of faster economic growth. The liberalization process is in vogue from the last 18 years in India, so it is high time to examine its impact on SSI sector which is an important component of India's economy. This sector has emerged as a powerful instrument for bringing about a rapid and decentralized growth in a country that faces adverse features such as having a large army of unemployed labor and scarcity of capital resources. It is considered as an important means for checking concentration of economic power to bring about economic dispersal and equitable distribution of national income. It also checks unplanned migration from rural and semi-urban areas to the urban areas. The sector provides the necessary boost for the development of new entrepreneurial initiatives to inject a sense of encouragement and competitiveness in the industrial sector. Moreover, the SSI sector accounts for more than 30 percent of India's total exports.

Numerous policy initiatives were taken during 1990's and onward both nationally and internationally. Such global, national and sectoral policies have far reaching implications as regards the performance of SSIs in India. Free movement of factor inputs which included

both labor and capital, especially after globalization had affected the international market. This has directly affected the growth of the small scale sector. Globalization has also reduced the costs of transportation and communication, thereby breaking down the barriers to the flow of goods, services, capital, knowledge etc. This, in turn, has facilitated resource transfers which allowed free movement of capital, commonly referred to as Foreign Direct Investment.

REVIEW OF LITERATURE

The setting up of the World Trade Organization (WTO) in 1995 has helped to reduce tariff and non-tariff barriers. India has been an active member of WTO and therefore, substantially avoided the quantitative and non-quantitative restrictions, as a result of which the small scale industry likely to face an intensified competition. In spite of all these, the sector's exports grew in terms of dollars, at an average rate of 5.9 percent during 1990-99 as against 5.2 percent during 1980-1990. In 1998, the government had taken a major step by abolishing the protective measures that had restricted SSIs, from participating in an open market, together with which although it had promoted overall competitiveness through addressing the problems in this sector. The

measures included a reduction in the number of items, which was gradually brought down from 842 in 1991 to 675 in 2003. Therefore, on the whole, the protection emphasis on the small scale sector has undergone considerable dilution since the early 90s.

Some policy measures regarding small scale industries taken in 2007 are as follows:-

- Investment limit for small scale industries has been raised from Rs. 1 crore to Rs. 5 crore.
- A Credit Guarantee Fund (Scheme) has been launched to provide guarantee for loans upto Rs. 25 lakh extended by commercial banks, selected well by performing regional Rural Banks and other Financial Institution without any collateral including third party guarantee. A Credit Guarantee Trust Fund has been created to implement the scheme.
- A new scheme named Market Development Assistance (MDA) was launched exclusively for SSI Sector.
- The Government approved Capital Subsidy Scheme for Technology Up-gradation on 20th September 2000, where 12 percent Capital Subsidy is given on loans advanced to SSI by the scheduled Commercial Banks, designated SFCs for technology up-gradation. In September 2005 this subsidy has been raised to 15 percent.
- The Government launched a scheme for creation of Technology Development Fund in the states by the Central government with the involvement of state government and industry associations. This fund has been launched for technological up-gradation of small-scale units. The investment ceiling has been to Rs. 5 crore for small scale manufacturing enterprises so as to upgrade technology.
- The quality certification scheme is launched to improve the quality of the products of small-scale industries. Financial support of Rs. 75,000 is provided to these industries to acquire ISO 9,000 and ISO 14001.
- The Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50 percent reservation for rural areas.
- The Government set up National Commission for small Enterprises in September, 2004 to recommend measures for the improvement in the productivity of this enterprise, providing support in areas like credit, raw material supply, infrastructure, technology up-gradation, marketing facilities and skill development.
- The Reserve Bank of India has raised the composite loan limit for the small scale industrial sector to Rs. 1crore from Rs. 50 lakh.

- The Small and Medium Enterprises (SMEs) Fund since April 2004. Eighty percent of the lending from this Fund will be for SSI units, at lending from this Fund will be for SSI units, at interest rate of 2 percent below the prevailing PLR (prime lending rate) of the SIDBI.

- Small Scale Industries associations are encouraged to develop and operate testing laboratories. One time capital grant of 50 percent are given on reimbursement basis to such associations after detailed examination of each case.

The new guidelines and reforms for small scale sector offered some advantages such as safer and easier entry into markets, the long standing relationship of the small business with the vendors that proved an added advantage to the large company besides multiple networks and internal market networks which helped the small managed enterprises to reorient themselves.

Certain other advantages from the government included supply of funds to develop the process of entrepreneurship. This was being increasingly encouraged through different sources like Rural Development and Self Employment Training Institute of Karnataka and Development of Women and Children in rural areas in Andhra Pradesh etc. some other schemes like the Integrated Rural Development Program (IRDP) and the Prime Minister's Rozgar Yojana (PMRY), helped in the promotion of shops and small trade activities.

By the year 2000, with the increasing popularity of the internet into the Indian market, small scale entrepreneurship had taken a revolutionary turn. This revolution swept across India and by the end of 2001, young entrepreneurs started contributing significantly to the economy. In

2003, in order to help the small enterprises in Northern India, the Confederation of Indian Industries devised a unique model based on a cluster approach. Its objective was to build the internal strengths which included, people, process, the technology of the small enterprise in the Northern India, thereby making them self-dependent. The model was executed through trained counselors who initiated the handholding process for the SMEs. This process was initiated through training programs which were based on quality management, aimed towards 'manufacturing through excellence', besides energy and cost management. Rural entrepreneurship was also encouraged through various projects, where large scale manufacturers participated actively. By the end of 2003, small business operators had flooded the domestic market and accounted for almost 34 percent of the nation's exports and 39 percent of the manufacturing sector's output.

MATERIAL AND METHOD

In this paper an endeavor is made to examine performance of SSI in terms of the growth rates of number of units, employment, output and exports of small industry during 1980s, 1990s and later period. Position of industrial sickness in SSI sector in pre and post liberalization era is also included in it. To achieve the above objectives of the study, secondary sources of data have been used. For the study, the reference period is 1981-2008. This period is further divided into 3 groups: - 1981-1990, 1991-2000 and 2001-08. This classification has been done to make an in-depth analysis. The data has been analyzed by using various statistical tools like percentage, compound annual growth rate (CAGR) and Independent sample t-test.

In order to comment on the success of the small scale industries in India, let us first analyze the same in terms of total production and employment of these industries. The performance of SSI sector in terms of total production and employment is obvious from the data given in Table 1.

Sr. No.	Year	Total SSI Units (Lakhs)	Production (Rs. Crore) at current Prices	Employment (Lakh persons)	Export (Rs. Crore)	Percentage share of SSI in Total Exports
1	1990-91	67.87	78802	158.34	9664	30
2	1991-92	70.63 (4.07)	80615 (2.30)	165.99 (4.83)	13883 (43.6)	31.5
3	1992-93	73.51 (4.07)	84413 (4.71)	174.84 (5.33)	17784 (28.0)	33.3
4	1993-94	76.49 (4.07)	98796 (17.0)	182.64 (4.46)	25307 (42.3)	36.4
5	1994-95	79.60 (4.07)	122154 (23.6)	191.4 (4.79)	29068 (14.8)	35.2
6	1995-96	82.84 (4.07)	147712 (20.9)	197.93 (3.41)	36470 (25.4)	34.3
7	1996-97	86.21 (4.07)	167805 (13.6)	205.86 (4.00)	39248 (7.61)	33.4
8	1997-98	89.71 (4.07)	187217 (11.5)	213.16 (3.54)	44442 (13.2)	38.2
9	1998-99	93.36 (4.07)	210454 (12.4)	220.55 (3.46)	48979 (10.2)	35.19
10	1999-00	97.15 (4.07)	233760 (11.0)	229.1 (3.87)	54200 (10.6)	35.06
11	2000-01	101.1 (4.07)	261297 (11.7)	238.73 (4.20)	69797 (28.7)	34.47
12	2001-02	105.21 (4.07)	289970 (10.9)	249.33 (4.44)	71244 (2.07)	34.29
13	2002-03	110.10 (4.07)	311952 (7.58)	260.21 (4.36)	86021 (20.7)	34.03
14	2003-04	113.95 (4.07)	357733 (14.6)	271.42 (4.30)	97644 (13.5)	33.49
15	2004-05	118.59 (4.07)	418263 (16.9)	282.57 (4.10)	124416.56 (27.4)	33.15
16	2005-06	123.42 (4.07)	497842 (19.0)	299.85 (6.11)	150242.03 (20.7)	32.92
17	2006-07	128.44 (4.07)	587196 (17.9)	312.52 (4.22)	182454 P (21.44)	31.91
18	2007-08 (estimated)	133.67 (4.07)	695126 (18.3)	322.28 (3.12)	147874.73 (-18.95)	32.98

* Figures in parentheses represent the percentage growth over last year, P shows provisional

Source: 1. www.smallindustryindia.com/ssindia/performance/htm.

2. Economic Survey, GOI, 2006-07, 2007-08.

It can be observed from Table 1 that the production of small scale industries which was Rs. 78,882 crore in 1990-91, rose upto a level of Rs. 6,95,126 cr., indicating a growth of nine times in just 18 years. The table shows that this sector was giving employment to 158.34 lakhs of people in 1990-91, this employment increased to a level of 322.28 lakhs in 2007-08. The percentage growth rate which was just 2.3 percent

over last year in 1991-92 went upto 18.3 percent in 2007-08.

The study further brings out the impact of liberalization on growth in number of units, employment level in SSI sector, production (at constant prices), fixed investment and the value of plant and machinery from the year 1981 to year 2008. The CAGR concerning these aspects are shown in Table 2.

Table 2: Employment, Investment and Production of SSI Sector in pre and post liberalization period

Indicators of growth of SSI sector	CAGR in Pre Liberalization period (in %)	CAGR in Liberalized Era (in %)
No. of SSI units	8.5	4.07
Employment (in lakhs)	5.94	4.19
Investment (in cr.)	12.63	10.92
Production (in crores)	18.97	13.71
Value of P&M (in cr.)	10.76	6.97

Source: calculated from data published by Ministry of Small Scale Industries, Government of India

The data in regard to share of SSIs in total exports from India are presented in Table. It is obvious from the table that contribution of SSI sector in the total exports from India during pre-liberalization period had ranged from 22 to 29 per cent. However, its share rose to 30 percent in 1990-91 and 36.4 percent in 1993-94. However, its share came down slightly in next three years. The share in exports went up to 38.2 percent in the year 1997-98. What attracts our attention is the stagnation in the percentage share of SSI sector in the total exports during the recent years. That is, the percentage share of SSI in the total exports has been hovering between 33 to 35 percent since 1999. Table 4.3 also exhibits that total exports have registered relatively lower compound annual growth rates (CAGR) of 19.21 percent as compared to SSI exports (21.08%) during 1981 to 2008. The above indicates that the CAGR of exports from SSI has edge over that of total exports from India.

CONCLUSION

It indicates clearly that the growth rate in number of SSI units was quite higher in pre liberalization era than during the liberalized era. The number of SSI units has increased at an average rate of 8.5 per cent during 1981-1990 but after 1991 the rate has declined to 4.07 percent. Same is the case with employment, Investment and Production and Value of Plant and Machinery. The compound average growth rate has fallen significantly. It implies that growth in all the variables is taking place only in absolute terms, but in reality the SSI sector is facing the conditions of

tough competition. That is why the growth rate, in all the variables, is falling.

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