



A Study On The Impact Of Small-Scale Industries On Economy

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Abstract

Economic development of any country is largely dependent on its industrial development. Thus, the role of small-scale industries has always been supported in a country like India with various opinions such as employment, equality, latent resource, trickling effect, insurance against social tension, distributive effect, creation of social eco-system and decentralization etc. The other arguments in favor of this are making provision for self-employment and capital formation. Study of SSI has received many responses from various economists. The performance of the small-scale sector has a direct impact on the growth of the overall economy in terms of number of units, production, employment and exports. It may help to understand its role in the economic development of the country.

There is a prominent role of small-scale industries in the development of a nation. India is a developing country so that small scale industry is the backbone of it. SSI sector is one of the fastest growing sectors of the country. It provides huge employment opportunities and its presence is very important for the emerging countries like India. The contribution of SSI sector to the economy is increasing day by day. It is second largest employment provider sector of the country after agriculture. The contribution of SSI in the total export is also significant which is one-third of the total exports of the country. Though the SSI sector made significant contribution to the national economy even during the pre- independence period, no planned efforts were made for the promotion and development of this sector. Although after independence government had provided full attention to these industries.

Key Words: SSIs, Employment, GDP, Trickle effect, Decentralization, Distributive effect

I.INTRODUCTION

Small-scale industries are businesses where manufacturing, production, and service delivery are conducted on a small or micro scale. These industries involve a one-time investment in machinery, plants, and infrastructure, which does not exceed Rs 10 Crore. Generally, small-scale industries consist of enterprises that operate using small machines and a limited workforce. These businesses must adhere to the regulations established by the Government of India. Small-scale industries are vital to the economy, particularly in developing countries like India. They are typically labour-intensive, playing a significant role in job creation. SSIs are a key sector of the economy, both financially and socially, contributing to per capita income and effective resource utilization.

Here are some examples and ideas for small-scale industries:

- Bakeries
- School stationery supplies
- Water bottles
- Leather belts
- Small toys
- Paper bags
- Photography services
- Beauty parlours

The Ministry of Micro, Small and Medium Enterprises issued a notification dated 26th June 2020 regarding revision of definition of Micro, Small and Medium Enterprises (MSMEs) and process of registration. Apart from the old criteria of categorization of MSMEs on the basis of investment in Plant and Machinery/Equipment, an additional criterion of turnover has been included. Moreover, the difference between manufacturing and services sector has been removed and now both are at the same level of treatment. This revision is paving the way for strengthening of Atmanirbhar Bharat Abhiyan and growth of the MSMEs. Particularly, the provision of excluding the exports from counting of turnover is encouraging the MSMEs to export more and more without fearing to forego the benefits of being an MSME.

Updated MSME definition and criteria in 2024

Type of Enterprise	Investment	Turnover
Micro	1 crore	5 crores
Small	10 crores	50 crores
Medium	50 crores	250 crores

II.OBJECTIVE OF THE STUDY

- To analyse the impact of small-scale industries or MSMEs on the country's economy.
- To review the performance and opportunities of SSIs.
- To study the needs and importance of small-scale industries in the Indian economy.

III.RESEARCH METHODOLOGY

As it is an exploratory study, the research paper is primarily dependent on secondary data that was gathered from many journals, periodicals, publications, government published annuals reports and website of different government agencies.

IV.REVIEW OF LITERATURE

Sumanjeet Singh and Minakshi Paliwal (2017) in "unleashing the development capability of Indian MSME area" had presumed that without a doubt the MSME part has tremendous potential for making latest business enterprise and enormous job openings yet a few issues going up against MSMEs are

- Lack of access to finance
- Lack of access to enter the foreign market
- Lack of skilled human resources
- Lack of consistent and steady infrastructure
- Hopeless marketing network

Dr.Reetu Sharma (2012) in “problems and prospects of small-scale industrial units (a case study of exporting and non-exporting units in Haryana) had concluded that SSI units are at a developing stage and more expansion is required but some problems need to be solved

- a) Underutilization of installed capacity
- b) The marketing activities to be strength for selling SSI manufactured products

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises and their contribution in India’s economic growth and concluded that MSMEs play a vital role in the inclusive growth of Indian economy.

Aarti Deveshwar (2006), The small scale industries sector has emerged as a vibrant and dynamic sector of Indian economy which contributes nearly 40% of the total industrial production and over 34% of the national exports. At present this sector is providing employment to over 250 lakhs people. It also acts as a nursery for promoting entrepreneurial talent and as catalyse of industrial growth through a wide network of more than three million units in the country, according for about 95% of the total industrial units in the country. The world trading system is constantly offering new challenges as well as creating new threats; as tariff and quotas are removed, new technical norms, sanitary and measures and anti-dumping actions are rendering more challenges for business in emerging economics. The WTO is bound to impact every economic activity- the small- scale sector is no exception. WTO Agreements have thrown up a variety of threats and challenges.

V.OVERVIEW AND PERFORMANCE OF SMALL-SCALE INDUSTRIES

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labor intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal roles played by small-scale industries in India.

- **Employment Generation**

The Micro, Small, and Medium Enterprises (MSME) sector is the second largest source of employment in India, following the agriculture sector. This sector contributes approximately 30% to the nation’s GDP and accounts for about 50% of the country's total exports. According to the 73rd National Sample Survey (NSS) on Unincorporated Non-Agricultural Enterprises in the Manufacturing, Trade, and Other Services Sectors (excluding Construction), the country has an estimated 633.92 lakh enterprises. Out of these, only 4,000 enterprises are classified as large, placing them outside the MSME sector. The Micro sector, with an estimated 630.52 lakh enterprises, represents over 99% of the total MSMEs. The Small sector, with 3.31 lakh enterprises, and the medium sector, with 0.05 lakh enterprises, make up 0.52% and 0.01% of the total MSMEs, respectively.

The NSS 73rd round, conducted during 2015-16, revealed that the MSME sector generated 11.10 crore jobs across rural and urban areas of India. This includes 360.41 lakh jobs in Manufacturing, 387.18 lakh in Trade, 362.82 lakh in Other Services, and 0.07 lakh in Non-captive Electricity Generation and Transmission. The Micro sector alone, with its 630.52 lakh enterprises, employs around 1076.19 lakh people, accounting for approximately 97% of the total employment within the MSME sector. Uttar Pradesh leads the nation with the highest number of MSMEs, holding a 14.20% share of the total. West Bengal follows closely with a 14% share. The top 10 states collectively contribute 74.05% of the total estimated MSMEs in the country.

- **Contribution to country's GDP**

Table -1. As per the latest information received from Ministry of Statistics & Programme Implementation, the share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) and the share of MSME manufacturing GVA in all India Manufacturing GVA are as follows:

Year	Share of MSME Gross Value Added (GVA) in All India GDP	Share of MSME Manufacturing GVA in All India Manufacturing GVA
2019-20	30.48%	40.67%
2020-21	27.24%	40.30%
2021-22	29.15%	40.83%

India's economy in terms of Gross Value Added (GVA) across three fiscal years: 2019-20, 2020-21, and 2021-22.

1. **Share of MSME GVA in All India GDP:**

- In 2019-20, MSMEs contributed 30.48% to the Gross Domestic Product (GDP) of India.
- This contribution saw a decline in 2020-21, dropping to 27.24%, likely due to the economic impact of the COVID-19 pandemic, which disrupted business activities across various sectors, including MSMEs.
- In 2021-22, the contribution of MSMEs to the GDP recovered slightly, rising to 29.15%, reflecting the sector's gradual rebound as the economy began to recover from the pandemic-induced slowdown.

2. **Share of MSME Manufacturing GVA in All India Manufacturing GVA:**

- Throughout the three years, the share of MSME manufacturing in the total manufacturing GVA remained relatively stable, hovering around 40%.
- In 2019-20, MSMEs accounted for 40.67% of the total manufacturing GVA.
- This figure slightly decreased to 40.30% in 2020-21, indicating that while the overall MSME sector was impacted by the pandemic, its manufacturing component remained resilient compared to its contribution to the GDP.
- By 2021-22, the share of MSME manufacturing in the total manufacturing GVA slightly increased to 40.83%, signalling a steady performance and the sector's importance in India's manufacturing landscape.

Overall, the data underscores the significant role of the MSME sector in the Indian economy, particularly in manufacturing, and highlights the sector's resilience in the face of economic challenges.

- **Export Enhancement**

Table-2. As per the information culled out from the Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of export of MSME specified products in all India exports are as follows:

Year	% share of Export of MSME related products in All India Export
2019-20	49.77%
2020-21	49.35%
2021-22	45.03%
2022-23	43.59%
2023-24*	45.56

* upto September 2023

Over the years, MSMEs have consistently contributed a large portion of India's total exports, with shares close to or above 45%. This indicates that MSMEs are crucial players in the export market, providing a steady stream of goods and services to international markets. The slight decline in the percentage share from 2019-20 to 2022-23 suggests that while MSMEs faced challenges, such as global economic conditions or competition, they remained resilient. The recovery in 2023-24 to 45.56% shows their ability to adapt and bounce back, potentially by improving their product offerings, exploring new markets, or enhancing their competitiveness.

The data highlights the crucial role that MSMEs play in driving India's export

economy. Their substantial contribution to exports, despite some fluctuations, reflects their resilience, adaptability, and importance in supporting national economic growth and regional development.

- **Diversification of Export Basket**

SSIs often produce a wide variety of products, including specialized and niche goods that cater to specific markets globally. Their contribution to nearly half of India's exports underscores their role in diversifying the country's export basket, reducing reliance on a few major sectors.

- **Promotion of Regional Development**

SSIs are often spread across different regions of the country, including rural and semi-urban areas. Their active participation in exports helps promote regional development by bringing global market opportunities to less industrialized areas, contributing to more balanced economic growth across the country.

- **Regional Dispersion of Industries**

It refers to the widespread distribution of these businesses across various geographic regions, rather than concentrating them in a few industrialized areas. This approach is vital for balanced economic growth, reducing regional inequalities, and fostering local development. Here's an overview of the importance and impact of the regional dispersion of small-scale industries and MSMEs:

- Promoting Balanced Regional Development
- Employment Generation in Rural and Semi-Urban Areas
- Utilizing Local Resources
- Infrastructure Development
- Reducing Urban Congestion
- Encouraging Innovation and Regional Specialization
- Economic Resilience
- Government Support and Policies

Table-3, Top-10 State-wise-Distribution of enterprises

Sl.No.	State/UT	Estimate Number of MSMEs	
		Number (in lakh)	Share (in%)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.16	5
8	Gujarat	26.87	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
	Total of Above ten States	469.36	74
	Other State/UTs	164.52	26
	All	633.88	100

Source: Annual Reports, Government of India, Micro, Small and Medium Enterprises(2023-24)

VI. PROBLEMS FACED BY SMALL SCALE INDUSTRIES

Despite the significant contributions of Small-Scale Industries (SSIs) to the Indian economy, they often lack the essential support from government agencies, financial institutions, banks, credit societies, and corporations. This shortfall in support hampers their ability to compete effectively in both national and international markets. The key challenges encountered by SSIs are outlined below:

- Poor Capacity Utilization
- Incompetent Management
- Inadequate Finance
- Lack of marketing support
- Raw material shortages
- Problem of working capital
- Problems in Export

VII. SUGGESTIONS AND RECOMMENDATIONS

- Equitable Allocation of Raw Materials, Imported Components and Equipment
- Improvement in the Methods and Techniques of Production
- Provision of Adequate Finance
- Marketing Assistance
- Industrial Education and Training

Conclusion

The promotion and growth of Small Scale Industries (SSIs) are crucial for the development of the Indian economy, ensuring fair distribution of income and wealth, achieving economic self-reliance, and fostering sustainable development. To elevate the SSI sector to its rightful position within the economic growth framework of India, it is vital to empower Micro, Small, and Medium Enterprises (MSMEs). This can be done by educating them on how to effectively utilize their inherent capacities for success in both human and economic endeavors. The government should implement measures such as providing financial assistance with minimal formalities, creating a platform to help MSMEs source high-quality raw materials, and offering training on organized marketing processes.

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