

Small Scale Industries

Small scale industries (SSI) are those industries in which manufacturing, providing services, productions are done on a small scale or micro scale. For example, these are the ideas of Small scale industries: Napkins, tissues, chocolates, toothpick, water bottles, small toys, papers, pens. Small scale industries play an important role in social and economic development of India. These industries do a one-time investment in machinery, plants, and industries which could be on an ownership basis, hire purchase or lease basis. But it does not exceed Rs. 1 Crore.

MSMEs

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

- A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
- A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore;
- A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

The MSMEs are classified in terms of investment made in plant and machineries if they are operating in the manufacturing sector and investment in equipment for service sector companies.

Though the primary responsibility of promotion and development of MSMEs is of the State Governments, the centre has passed an Act in 2006 to empower the sector and also has formed a Ministry (Ministry of MSMEs). It was the Micro, Small and Medium Enterprises Development (MSMED) Act which was notified in 2006 that defined the three tier of micro, small and medium enterprises and set investment limits.

Table: Classification of MSMEs

Classification of the MSME	Ceiling on Investment in Plant and Machinery (in Rs)
Micro	Below 25 lakhs
Small	25 lakhs to 5 crores
Medium	5 crores to 10 crores

For the service sector, the investment limits are Rs 10 lakh, 2 crores and 5 crores in terms of investment made in equipment. In 2015, the government has introduced an amendment bill to enhance the investment limit in all categories.

Salient Features of the Government's Small Scale Industrial Policy of 1991

Small Scale Industry (SSI) is an industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership term or on lease or hire purchase, does not exceed Rs 1 crore. However, this investment limit is varied, by the Government from time to time.

India has the longest history of small enterprise development policy both in Asia and the world. Over the last six decades, India has built up one of the world's most elaborate small enterprise development programmes for providing assistance to individuals and institutions, both in the urban and rural areas, for setting up small-scale enterprises. In the post-reforms period, there has been a shift in focus from 'protection' to 'promotion'.

The Micro, Small and Medium Enterprises Development Act, 2006, defines small enterprises as those manufacturing units, which have investment above Rs 25 lakh and up to crore. It takes into account investments in plant and machinery only and does not consider money invested for effluent treatment, quality control, fire-fighting equipment and safety. It also excludes the 'standby' investment in land and buildings. A separate category of medium enterprises upto a capital investment of Rs 10 crore has also been recognised in the Act.

Silent Features of the Small Scale Industry Policy, 1991:

Some of the salient features of the Government's Small Scale Industrial Policy of 1991 are stated below:

i. A separate package for the promotion of Tiny Enterprises was introduced. This constituted the main thrust of Government's new policy. While the small scale sector (other than 'Tiny Enterprises') were mainly entitled to one-time benefits (like preference in land allocation/power connection, access to facilities for skill/technology upgradation), the "Tiny" enterprises were also made eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws.

ii. The scope of the National Equity Fund Scheme was widened to cover projects up to Rs.1 million for equity support (up to 15 per cent). Single Window Loan Scheme was enlarged to cover projects up to Rs. 2 million with working capital margin up to Rs 1 million.

Composite loans under Single Window Scheme, which was previously available only through State Financial Corporation's (SFCs) and twin function State Small Industries Development Corporation (SSIDCs), were channelized through commercial banks to facilitate access to large number of entrepreneurs.

iii. Emphasis was shifted from subsidised/cheap credit, except for .specified target groups, and efforts were made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector.

iv. To provide access to the capital market and to encourage modernisation and technological upgradation, equity participation by other industrial undertakings in the SSI, not exceeding 24

per cent of the total shareholding was allowed. This was done to give and impetus to ancillarisation and sub-'contracting, leading to expansion of employment opportunities.

v. A beginning was made towards solving the problem of delayed payments to small industries by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). Network of such services was set up throughout the country and operated through commercial banks.

vi. It was recognised that a large potential of small scale sector in contributing to exports still remained untapped. The SIDO was recognised as the nodal agency to support the small scale industries in export promotion. An Export Development Centre was set up in SIDO to serve the small scale industries through its network of field offices to further augment export activities of this sector.

vii. Industry Associations were encouraged and supported to establish quality counselling and common testing facilities. Technology Information Centres to provide updated knowledge on technology and markets were proposed to be established. It was decided to enforce compulsory quality control, where nonconformity with quality and standards involves risk to human life and public health.

viii. A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector was intended to be pursued. Specific industries in large concentrations/clusters were identified for studies in conjunction with SIDBI and other banks.

Such studies were supposed to establish commercial viability of modernisation prescriptions, and financial support was to be provided for modernisation of these industries on a priority basis. Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges were chosen as Technology Information, Design and Development Centres in their respective command areas.

ix. A Technology Development Cell (TDC) was set up in the Small Industries Development Organisation (SIDO) to provide technology inputs to improve productivity and competitiveness of the products of the small scale sector.

The TDC coordinated the activities of the Tool Rooms, Process-cum-Product Development Centres (PPDCs), existing as well as to be established under SIDO, and would also interact with the other industrial research and development organisation to achieve its objectives.

x. Adequacy and equitable distribution of indigenous and imported raw materials was to be ensured to the small scale sector, particularly the tiny sub-sector. It was decided to give priority to Tiny/Small Scale units in allocation of indigenous raw material based on the capacity needs.

xi. Need for developing a strong Entrepreneurship Development Programme (EDP) and developing a pool of trainers for EDP was also felt.

Policy Measures of Govt. of India for SSI – Small Scale Industries.

A) National Manufacturing Competitiveness Programme (NCMP)

In the globalization world small scale industries need to adopt market competency and to provide the same important policy being initiated by the Government of India to build the global manufacture capacity and to overcome competition in the global markets as well as facing challenges being posed by the entry of the global companies in the domestic markets, the ministry of MSME is implementing the National Manufacturing Competitiveness Program (NMCP). The prime object of NMCP is to ensure quality growth of the MSME Manufacturing Sector. The 10 components of the Program dealing with the firm level competitiveness are being implemented in the Public-Private-Partnership (PPP) models.

Ten component address the manufacture sector challenges.

The details program components are as below

- Entrepreneurial and Management Development of SMEs through incubator
- Mini Tool Room & Training Centres
- Intellectual Property Rights awareness
- Lean Manufacturing program
- Manufacturing Sector to be Competitive through Quality Management Standards
- Technology Tools.
- Design Clinic Scheme to bring Design expertise to the Manufacturing sector
- (DESIGN)
- Promotion of ICT in Indian Manufacturing Sector (ICT)
- Technology Upgradation and Quality Certification
- Marketing Assistance for SMEs and Technology Upgradation Activities
- (MARKETING)
- Marketing Support and Assistance to MSMEs thru Bar code.

B) Infrastructure facilities.

Place is prime factor of business and small scale industries lacking behind to get good place for their business. As part of policy initiative to facilitate location of industries in rural or backward region. Government to provide and promote the stronger relationship between industries and market a new Scheme of Integrated Infrastructural Development incorporated with Technological Back-up Services for Small Scale Industries would be implemented with the active participation of State Governments as well as various financial institutions.

A technology development cell (TDC) would be set up in the Small Industries Development Organization (SIDO) which will support technology up gradation to increase productivity and competitiveness of the products of the small scale sector. The TDC would support for the activities of the Tool Rooms, Process-cum-Product Development Centres (PPDCs). This will support to adequate distribution of local and imported raw materials to small scale industries. Policy give priority to raw material allocation to small scale industries. Proper and adequate incentive distribution.

C) Enhancement of Quality and technology

Creating awareness of national and international standards to product goods and services. Technology information centres to support expand small scale industries Provide technology consultation and consultation on latest technology. To coordinate SIDBI for providing financial support to explore technology to match global technology. Working with IIT and regional engineering college to serve desire technical enhancement and information

D) Promotion

Entrepreneurship development programs (EDP) along with industry association partnership they develop next generation training program to encourage more business and leadership.

EDP would be providing vocational and other certificate program. Special session for women entrepreneurs would be provided to encourage more and more Participates. Defining women enterprise by inviting more women in business.

E) Rural support:

Government initiated various policy toward handloom, handicraft and other rural industries. Handloom sector contributing good amount of share in textile which is around 30 percentage of total textile support with significance amount of employment opportunity. Government introduce various policies to remove hurdle of various process and streamline various line of actions. Existing available scheme has been redraft to ensure all unwanted hurdle are removed. Janata cloth scheme under which good amount for funds are provided for modernization of looms, designer training, assistance for better dyes and chemical and various marketing assistance.

For supplying yarn and dyes National handloom Development Corporation (NHDC) is expanded. Spinning capacity in the cooperative sector is being enhanced. National corporative development corporation is providing more assistance in both cases cotton and weaving spinning mills. As part of marketing activity government organized various marketing schemes for design, national level publicity, exhibition, and fair. To modernized loom sector special project is being undertaken. Next generation technology and marketing is being undertaken by government.

Handicraft is contributing to economy with very faster pace amount rural industries. Considering the importance of this sector from the point of export and major economy contributor, government has decided the development of this sector. Government working on various angle to improve on quality and effective marketing. Efforts are being made to preserve the traditional importance of the crafts as well as engage the hereditary skills of the craftsperson to suit modern requirements. Extensive guidance on various verticals like raw material distribution, design, technical guidance, sale & marketing, training, area base support to set up craft base requirement. State handicraft Development Corporation and other cooperative organization provide extensive training. Other rural industries like Khadi and village industries, where in traditional and reputed companies will be engaged and encouraged to take part voluntary. R& D sector would be more strengthened with connection other institutions in the area of production, developing new tools and packaging as well as processing. The training program would be enhance as per global requirement.

F. Incentive to Small Scale industries.

Fiscal incentives are provided through tax holidays, permission, waiver or discount of direct and indirect taxes on various outputs like production, profit as well as sales. These incentives offer to promote the Small Scale industries. In respect of tax holidays in the year of 2005-06, deduction of tax for small scale industries is allowed to take tax exemption under section 80IB. There are provisions given below. Small Scale Industries under ownership of an organization then the deduction can be used up to 30% of the first 10 years, if in the cooperative sector then the deduction can be utilized up to 25% for the first 10 years and if owned by a person then the deduction can be used 25% for the first ten years. At least 10 employees need to carry out if government aided small scale industries and it would be a minimum of 20 employees need to carry out if not aided. Financial assistance and help them to draft the proposal and documentation. Work for special arrangement with commercial bank for sanction of loan proposal.

G. Foreign direct investment in Small Scale Industries:

There was a good amount of amendment in MSME development act 2006. Wherever the foreign investment is more than 25% of total capital engaged in manufacturing activity reserved for Small Scale industries such undertakings require licensing permitted. The issue of Industrial license is subject to small undertakings that export a minimum of 50% of the new annual production which was reserved for Small Scale need to achieve in a period of three years. Foreign direct investment in various brands in retail trading in all kinds of products will be permitted with the condition of a minimum thirty percentage of the value procurement need to purchase through small scale industries.

List of products reserved for manufacture of SSI for period of 2007-08 to 2011&12

- Food And Allied Industries: Pickles and Chutneys, Bread, Mustard Oil, Ground nut oil.
- Wood and wood Product: Exercise books and registers
- Chemical and products: Wax Candles, Laundry soap, Safety matches, Fireworks,
- Agarbatties.
- Glass & Ceramics: Glass bangles, Mechanical engineering products, Steel and rolling
- shutters, Steel Chairs, Steel tables, Steel furniture, Padlocks, Stainless steel utensils,
- Domestic utensils- Aluminium.

Policy initiative as made in India 2016

With visualization as India is world manufacturing hub make in India movement initiated.

This policy and think has power to turn India as world manufacture hub. The characteristics of a help eco system consist of:

- (a) Easy business start-up requirement
- (b) Easy business process compliance
- (c) High tech infrastructure availability

Challenges before Small Scale Industries in the Era of Globalisation

Small Scale Industries do not enjoy much of the advantages enjoyed by large scale enterprises because of their nature and size. Though they have made significant contribution to economic development, they have not realized their full potential. They face many problems in their functioning and many Small Scale Industries are sick.

The government had reserved certain items for exclusive production by Small Scale Industries. Large scale enterprises were not allowed to produce the items which were reserved for the SSI sector. With the opening up of the economy and following the principles of liberalization and globalization, many items have been successively De-reserved. Therefore Small Scale Industries have to now counter the twin forces of competition from Indian large scale enterprises as well as foreign competitors.

The following are the major challenges faced by Small Scale Industries:

(1) Finance:

Finance is one of the most important Challenge confronting small scale industries Finance is the life blood of an organisation and no organisation can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate them working adequate credit on easier terms and conditions must be provided to them.

(2) Raw Material:

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

(3) Idle Capacity:

There is under-utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem

associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(4) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

(5) Marketing

These small scale units are also exposed to marketing problems. They are not in a position to get first-hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(6) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

(7) Under Utilisation of Capacity:

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipment.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

(8) Project Planning:

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

(9) Skilled Manpower:

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

(10) Managerial:

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.