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Topic- Importance of Small Scale Industries in India

## Introduction

Small Scale Industries (SSIs) have long been heralded as the backbone of India's economy. This notion is not just symbolic but reflects the true essence of the country's industrial ecosystem. These industries, characterized by their modest scale and local orientation, have been instrumental in shaping India's socio-economic development, particularly in post-independence India. While they often operate in the shadows of larger industries, their contributions to employment, regional development, and economic self-reliance are undeniable. In this blog, we will explore the multifaceted role and importance of SSIs in India, their economic contributions, related government policies, and future investment opportunities.

## Historical Background

The Small Scale Industries (SSI) sector in India proved to be a cornerstone of the nation's industrial policy since its **formal inception in 1954**. The Indian government established it with the creation of the **Small Scale Industries Board**. The policy aimed to build a dynamic small manufacturing sector capable of driving employment, optimizing resource use, and promoting regional balance. This initiative was aligned with the broader economic strategy of the time, which emphasized heavy industrialization as articulated by Mahalanobis in the Second Five-Year Plan.

The SSI sector's role was seen as complementary, providing a counterbalance to the capital-intensive focus of large industries and addressing regional

disparities. As India transitioned through significant economic reforms post-1991, the SSI sector has continually evolved, maintaining its critical role in the country's economic landscape while adapting to new challenges and opportunities.

### The Role and Relevance of Small-Scale Industries (SSIs)

- One of the most significant contributions of SSIs is their role in employment generation. In a country like India, where a large portion of the population resides in rural and semi-urban areas, the ability to create jobs outside the metropolitan centers is crucial to curb mass migration and promote regional development.
- SSIs, by their very nature, are labor-intensive and, therefore, require more human resources relative to the capital employed. This characteristic aligns perfectly with India's demographic reality, where labor is abundant but capital is scarce.
- With over **36 million units** spread across the country, **SSIs employ more than 80 million people with a diverse range of approximately 6000 items**. These industries provide employment and contribute significantly towards reducing existing poverty and social instability. In regions where large-scale industries may not be viable due to infrastructural constraints, SSIs have filled the gap. They are not just concentrated in a few urban centres but are more evenly distributed across the country.
- Moreover, SSIs play a crucial role in reducing regional disparities. By setting up industries in less developed areas, they contribute to the economic development of these regions, therefore creating a more balanced growth pattern across the country. This is particularly important in a country as diverse as India, where regional imbalances can lead to social and economic tensions.

### Flexibility and Adaptability of SSIs

- The diversity of SSIs is another of their significant strengths. Unlike large industries that may focus on a limited range of products, SSIs are involved in the production of a wide variety of goods, ranging from traditional handicrafts to high-tech items. This diversity not only caters to the needs of the domestic market but also contributes to the export

sector. In fact, SSIs are responsible for about 45% of the total industrial output and approximately 40% of India's exports.

- The ability of SSIs to produce such a wide range of products is due to their flexibility and adaptability. In an increasingly globalized world, where market demands can change rapidly, this flexibility allows SSIs to respond quickly to new opportunities and challenges. For instance, during periods of economic downturn, when large industries may struggle to adjust to changing market conditions, SSIs have often shown consistency and adaptability. Their smaller size allows them to pivot more easily, adopting new strategies to maintain production and protect jobs.

### SSIs and the Vision of Self-Reliance

Small-scale Industries are not just economic entities; they also reflect the larger vision of self-reliance that has been a cornerstone of India's economic policy since independence. This vision draws inspiration from the **Gandhian philosophy of self-sufficiency and local production.**

- The contribution of SSIs to self-reliance is also multi-faceted. Firstly, by making use of local resources and skills, SSIs help reduce dependency on imports. In sectors such as textiles, handicrafts, and food processing, SSIs have preserved and promoted traditional skills and knowledge and have ensured that India remains a global leader in these areas. This not only helps in sustaining local economies but also enhances the country's export potential, which helps in foreign exchange earnings.
- Secondly, SSIs play a crucial role in the "Make in India" initiative, which aims to transform India into a global manufacturing hub. By focusing on domestic production and catering to both local and international markets, SSIs help in achieving the goals of this initiative. They are often seen as the seedbeds for large-scale industries that provide the necessary conditions for the growth and development of larger enterprises. Many large industries in India have their roots in small-scale units, which provided them with the initial platform to grow and expand.

Furthermore, the role of SSIs in promoting entrepreneurship cannot be overstated. With their low capital requirements and relatively simple technology, SSIs provide a conducive environment for budding entrepreneurs to start their ventures, which builds a culture of innovation.

## Government Support for MSMEs

Recognizing the critical role that SSIs play in the economy, the Indian government has implemented various policies and initiatives to support their growth and development. One of the most significant of these is the **MSME Development Act of 2006**, which provides a legal framework for the promotion and development of Micro, Small, and Medium Enterprises (MSMEs), including SSIs. This act has helped in creating a more favorable environment for SSIs, enabling them to access credit, technology, and markets more easily.

In addition to the MSME Development Act, the government has also introduced several other initiatives aimed at strengthening the SSI sector. The **Udyam Registration Portal**, for instance, has made it easier for SSIs to register and avail of various government benefits. This digital platform provides a simple and transparent registration process, which has helped in formalizing a large number of SSIs and bringing them into the mainstream economy.

Another significant initiative is the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**, which provides collateral-free credit to SSIs. Access to credit has always been a significant challenge for SSIs, as they often lack the assets required to secure loans from traditional financial institutions. The CGTMSE scheme addresses this issue by providing a credit guarantee, thereby encouraging banks and other financial institutions to lend to SSIs. This has helped in increasing the flow of credit to the sector, enabling SSIs to invest in technology upgradation, expansion, and innovation.

The government has also launched several schemes to enhance SSIs' competitiveness in the global market. The **National Manufacturing Competitiveness Program (NMCP)** is one such initiative that supports technology upgradation, quality management, and marketing. By helping SSIs adopt modern technologies and practices, the NMCP has enhanced their ability to compete in the global market, thereby increasing their export potential.

## MSMEs as Investment Opportunities

Looking ahead, India's MSME sector is on track to become a **\$1 trillion market by 2028**. This indicates its potential as a major investment destination. As the country nears its goal of a \$5 trillion economy by 2026-27, MSMEs are increasingly attracting attention from investors. With the **Foreign Direct Investment (FDI) policy** now allowing 100% FDI under the automatic route, the sector presents diverse opportunities, particularly in industries like textiles,

food processing, and agriculture. Notably, the market is also making way for women entrepreneurs as 20.5% of MSMEs registered on the Udyam portal are women-led, contributing to 18.73% of employment in the sector. Government initiatives, including the Digital MSME Scheme and the INR 22,137.95 crore budget allocation for technology upgrades, drive digital transformation and sustainability within the industry. Schemes like the Credit Guarantee Scheme and ZED Certification that promote female entrepreneurship and environmental sustainability position MSMEs as a critical driver of India's economic growth.

### Conclusion

Small Scale Industries are more than just a segment of the economy; they are the lifeblood of India's industrial and social fabric. Their contributions to employment, regional development, and economic self-reliance are invaluable. By providing jobs, promoting regional development, and self-reliance, SSIs have played a crucial role in shaping India's economic landscape. As the country continues to pursue its ambitious growth targets, the role of SSIs will become even more critical. With continued support from the government and a focus on innovation and competitiveness, SSIs are poised to play a leading role in India's journey towards becoming a global economic powerhouse.