



SME Development in India: Issues and Policy Concerns

Keshab Das

Visiting Research Fellow,
Institute of Developing Economies, IDE-JETRO, Chiba, JAPAN
and
Associate Professor,
Gujarat Institute of Development Research, Ahmedabad, INDIA




Central Focus

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- **SMEs in India**
 - Long policy history (since 1950s)
- **SMEs** (*medium* is a very recent addition in official lexicon, it is *MSME*, now) **with a long history of policy mainly emphasized on:**
 - Generating large scale employment
 - Broad-base industrialisation
 - Reducing regional disparities
 - Technological upgradation, recently




Globalization and Outward Orientation of SMEs

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- From import substitution to export orientation
 - Global business networking to enhance competitiveness, market share and factor productivity



Definitional Ceilings: Bigger Units as Favourites


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- **SME definition based on historical value of investment in plants and machinery without reference to employment**
 - **Since 1980, definitional changes raised the ceiling denoting a strong bias towards the bigger of the small scale units**

Definitional Investment Ceilings Criteria for SSI in India, 1980-2006

Year	Upper limit of the historical/original value of plant and machinery (Rs. Million)				
	SSI	Ancillary	Tiny	EOU	SSSE/ SSSBE
1980	2.0	2.5	0.2	-	-
1985	3.5	4.5	0.2	-	0.2
1991	6.0	7.5	0.5	7.5	0.5
1997	30.0	30.0	2.5	30.0	0.5
1999	10.0	10.0	2.5	10.0	0.5
2001	10.0	10.0	2.5	10.0	1.0
2006	10.0/ 50.0	10.0	2.5	10.0	1.0/ 20.0



Distribution of Units in the SSI and Tiny Sector, 2001-02



Type of Units	Registered	Unregistered
Size of the Sector	1374974	9146216
SSI Units	901291	3544577
Tiny Units within SSI	882496 (97.9 %)	3543091 (99.9 %)

Aspects of Growth of SSI in India, 1990-2005

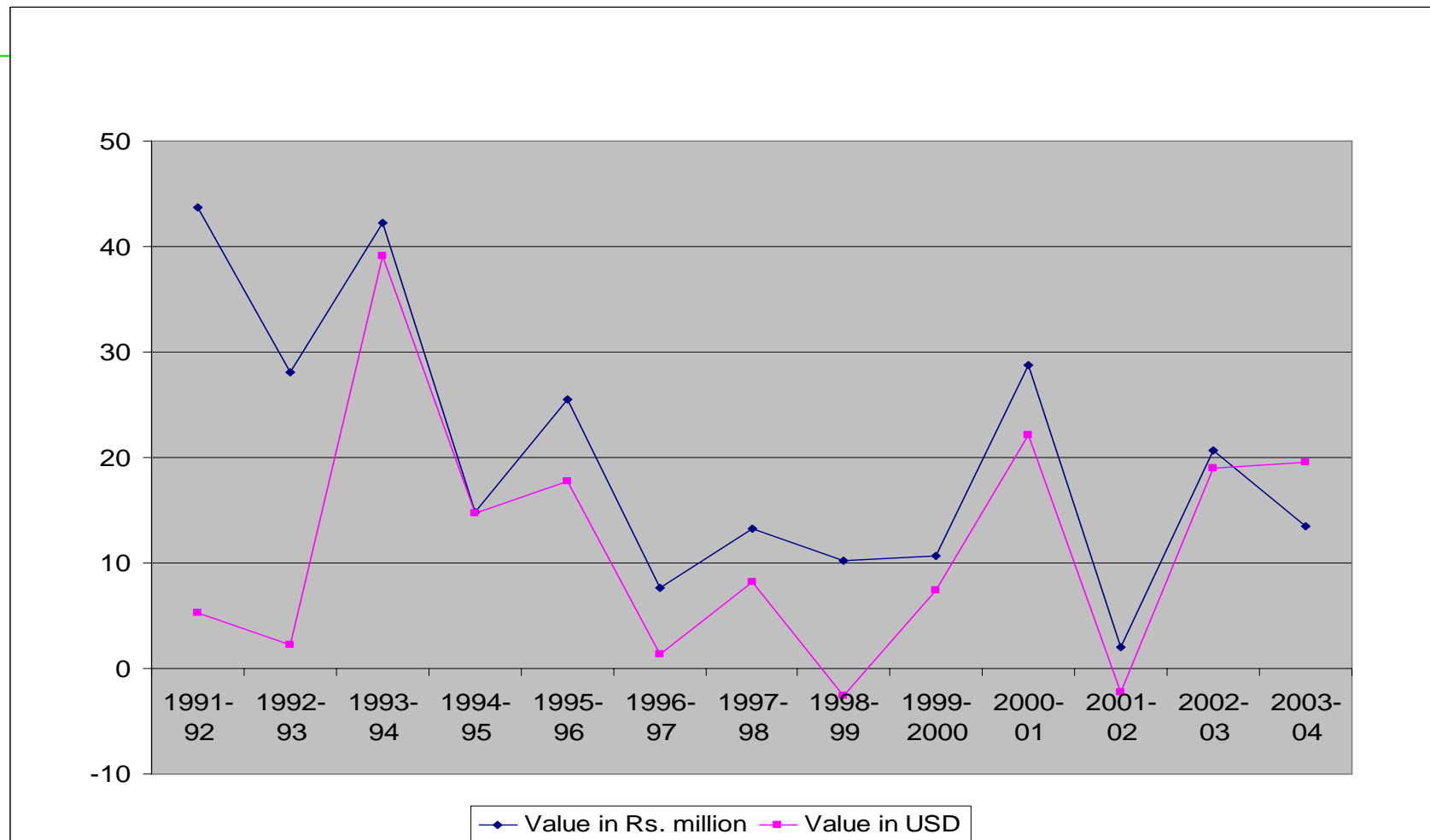
Year	Total SSI Units (in Million)	Fixed Investment (Rs. Million)	Production (Rs Million) Constant Prices	Employment (In Million)
1990-91	6.79	935550	682450 (93-94)	15.83
1991-92	7.06 (4.07)	1003510 (7.26)	791800 (15.94)	16.60 (4.83)
1992-93	7.35 (4.07)	1096230 (9.24)	935230 (18.11)	17.48 (5.33)
1993-94	7.65 (4.07)	1157950 (5.63)	988040 (5.65)	18.26 (4.46)
1994-95	7.96 (4.07)	1237900 (6.90)	1091160 (10.44)	19.14 (4.79)
1995-96	8.28 (4.07)	1257500 (1.58)	1216490 (11.49)	19.79 (3.42)
1996-97	8.62 (4.07)	1305600 (3.82)	1353800 (11.29)	20.59 (4.00)
1997-98	8.97 (4.07)	1332420 (2.05)	1478240 (9.19)	21.32 (3.55)
1998-99	9.34 (4.07)	1354820 (1.68)	1594070 (7.84)	22.06 (3.46)
1999-2000	9.72 (4.07)	1399820 (3.32)	1707090 (7.09)	22.91 (3.88)
2000-01	10.11 (4.07)	1473480 (5.26)	1844280 (8.04)	23.91 (4.36)
2001-02	10.52 (4.07)	1543490 (4.75)	1956130 (6.06)	24.91 (4.18)
2002-03	10.95 (4.07)	1625330 (5.30)	2106360 (7.68)	26.01 (4.43)
2003-04	11.40 (4.07)	1707260 (5.04)	2287300 (8.59)	27.14 (4.32)
2004-05	11.86 (4.07)	NA	2515110 (9.96)	28.29 (4.26)



Contribution of Small Firms

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- **Accounts for over 50 % of production**
 - **Above 60 % of exports**
 - **Over 8000 items**
 - **Over 20 million workers**

Rate of Growth of SSI Exports in India, 1990-2004



Export of Major Product Groups from the Indian SSI Sector, 1988-2003

Product Group	1988-91		2000-03	
	Value	%	Value	%
Readymade garments	31029	40.9	249751	33.0
Engineering goods	6573	8.7	94780	12.5
Basic chemicals, pharmaceuticals and cosmetics	10467	13.8	84642	11.2
Processed goods	3090	4.1	75970	10.0
Electronic and computer software	-	-	63850	8.4
Finished leather and leather products	15528	20.5	55025	7.3
Marine products	2681	3.5	28570	3.8
Woolen garments and knitwears	845	1.1	20886	2.8
Plastic products	477	0.6	18149	2.4
Cashew kernel, cashew nut shell liquid*	3166	4.2	18398	2.4
Chemicals and allied products	905	1.2	14371	1.9
Synthetic and rayon textiles	114	0.2	13503	1.8
Spices, spice oil oleoresins*	196	0.3	8657	1.1
Processed tobacco, snuff and bidis	165	0.2	6239	0.8
Sports goods	532	0.7	2812	0.4
Lac*	165	0.2	1242	0.2
Total	75932	100.0	756843	100.0

Bank Credit to SSI and Tiny Sector


Year (as on end March)	Net Bank Credit	Proportion of Credit of		
		SSI to Net Bank	Tiny to Net Bank	Tiny to SSI
1990-91	1056320	15.89		
1991-92	1121600	15.51		
1992-93	1327820	14.60		
1993-94	1409140	15.30		
1994-95	1690380	15.29	4.58	29.93
1995-96	1843810	15.99	4.44	27.76
1996-97	1896840	16.63	5.02	30.20
1997-98	2182190	17.46	4.71	27.00
1998-99	2462030	17.33	3.59	20.70
1999-2000	2929430	15.63	7.76	54.03
2000-01	3408880	14.21	7.63	53.70
2001-02	3969540	12.53	6.81	54.34
2002-03	4778990	11.09	5.64	50.84

Sickness in Small Scale Industries, 1991-2004

Year	Sick/ Weak Units (Number)	Outstanding Amount (Rs. Million)
1991	221471 (98.96)	27920 (25.93)
1996	262376 (99.10)	37220 (27.07)
2000	304235 (98.97)	46080 (19.78)
2001	249630 (98.69)	45060 (17.48)
2002	177336 (98.19)	48190 (18.49)
2003	167980 (98.02)	57060 (16.39)
2004 (P)	138811 (*)	52850 (*)




Key Constraints

- 
- **Basic infrastructure, especially, power and transportation**
 - **Reservation (now, phased out)**
 - **Credit**



Emphases of New Initiatives

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- **Promoting clusters**
 - **Social security of workers in the unorganised sector**
 - **Innovativeness through networking (domestic and global)**
 - **Increasing exports**
 - **Rural industrialisation (broad-basing)**