

The Implication of Small-Scale Businesses in Indian Economic Progress

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Abstract: Small-scale industries have been identified as an economic growth engine that contributes to the equitable development of both rural and urban regions. The Small-Scale industries sector is a critical component of the Indian economy, contributing significantly to GDP and employment. These small-scale industries have inherent benefits such as low capital intensity, strong employment generating capability, geographically balanced development, and equitable wealth and income distribution. The current article was written with the primary goal of investigating the profile of Small-Scale Industries in India and analyzing the contribution of Small-Scale industries to the Indian economy. The data for the study were gathered from several published papers by the Government of India. According to the data, Small Scale industries make a major contribution to the Indian GDP.

Keywords: Economy policy, small-scale enterprise, business environment, human participation, diversified production, employment opportunity.

1. Introduction

With a population of over a billion people, India is a developing economy. Nearly 40% of the population is poor, and 70% of the population relies on agriculture for a living. India's economic restoration is dependent on the country's economy growing in a balanced manner in agriculture and industry. Because money and financing have been in short supply in India, the government has pushed alternatives to agricultural and heavy industries, such as small-scale companies that can function with low resources. An entrepreneur can run a small-scale industry without complex machinery or modern technology. There are several sectors in the unregistered sector, which employs an estimated 91.64 lakh people. In the globalized world, Small-Scale industries in India, which formerly operated in a sheltered atmosphere, face new obstacles. The liberalization boosted competition, unfettered product circulation, investment, and strategic partnerships for product creation, manufacturing, sourcing, and marketing. As a result, in a developing country like India, small-scale industries have a unique place in the industrial system. Because of the tremendous potential of small-scale companies, the Indian government has prioritized the sector in its economic policy for both economic and ideological reasons.

A. India's Evolution of Small-Scale Industries

Since 1951, industrialization has been a prominent aspect of Indian economic development. India is now the tenth most industrialized country in the world, thanks to a fivefold increase in industrial production. Small-scale enterprises are critical to the growth of the national economy. India is dealing with issues such as unemployment and a lack of capital resources. "The intrinsic characteristics of small-scale enterprises, such as relatively low initial capital needs, entrepreneurial and job creation potential, and so on, make them suitable for balanced and decentralized growth. For an investment of Rs. 1 lakh in fixed assets, small-scale production units produce nine times the employment of large companies. When opposed to big scale units, the small-scale industrial sector possesses some unique characteristics that are extremely useful to our economy, such as job potential, indigenous nature, balanced regional growth, and so on. This sector contributes to the economy's rapid development by offering job possibilities to the rural and less trained masses, as well as meeting these people's consumer needs through indigenous production that makes use of local resources. The fast rise of the comparatively tiny manufacturing sector in India has been a prominent aspect of the Indian economy since independence. Over the last five decades, successive administrations have devised policies to preserve the interests of the small-scale manufacturing sector while also facilitating its fast expansion. Governments have implemented different support measures following their policies, such as reservation, adjustment of investment ceilings, upgrading of technology, marketing aid, fiscal incentives, and so on.

Table 1
State-wise involvement in MESME enterprise

Key MSME States	Percentage Share
Maharashtra	21.12%
Tamil Nadu	10.80%
Gujarat	8.43%
Rajasthan	8.12%
Uttar Pradesh	7.72%

Source: IBEF, 23rd November 2021

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According to the following data, Maharashtra has the biggest percentage share of MSME and is the most participating state in MSME operations. Uttar Pradesh is the state with the lowest participation in MSME firms. Gujarat ranks third with an average 8.43 % share and is equally interested in MSME operations.

B. Contribution of Small-Sector Industry to Indian Economy

1) Production capacity of Small-Scale Industries in India

The small-scale industry is critical to the country's prosperity. It accounts for 40% of the Indian economy's total gross manufacturing output. It is predicted that a lakh rupees of fixed asset investment in the small-scale industry create 4.62 lakhs worth of goods or services, with a value increase of around 10 percentage points. Over the years, the small-scale industry has expanded dramatically. Growth rates have been quite excellent over the different plan years. The Small-Scale sector is crucial to the country's economic development. It accounts for 40% of the entire gross manufacturing output of the Indian economy. A lakh rupees of fixed asset investment in the small-scale business is expected to generate 4.62 lakhs worth of goods or services, representing a value increase of roughly 10%. The small-scale sector has grown substantially throughout the years. Growth rates have been pretty good across the various plan years.

2) Employment Opportunities of Small-Scale Industries

Second, only in agriculture, the SSI sector in India generates the most job possibilities for the Indian people. It is expected that a lakh rupees of fixed asset investment in the small-scale industries will create four jobs. The contribution ranged from 9 percent to 5 percent in chemicals and chemical products, machinery wood goods (excluding electrical items), basic metal industries, paper products, printing, hosiery and textiles, repair services plastic products, for a total contribution of 49 percent by these eight industry groups. However, per unit employment in the Chemicals and chemical products, non-metallic mineral products, and Basic metal industries was greater in rural regions than in metropolitan/urban areas.

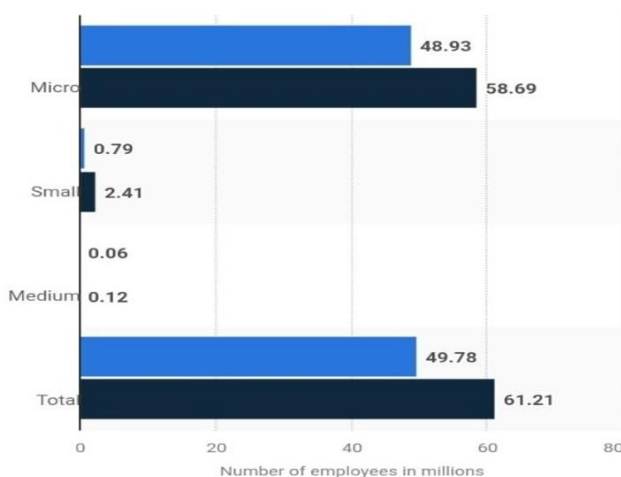


Fig. 1. Number of employees at micro, small, and medium enterprises across India in the financial year 2021 (Source: Statista, 23rd November 2021)

According to the following data, micro and small business cumulative accounts for 49.72 million employees in urban areas and 61.1 million employees respectively. The urban workforce accounts for the majority by roughly 18%. The small business together creates “one-fourth” of India’s Total employment.

3) Export promotion strength of Small-Scale

India's present export success is dependent on the small-scale industry. The small-scale industry sector accounts for 45 to 50 percent of Indian exports. Direct exports from the small-scale industry sector account for roughly 35% of overall exports. More than 5000 small-scale units would engage in direct exports. Aside from direct exports, it is estimated that small-scale industrial entities generate roughly 15% of indirect exports. This is done through merchant exporters, trading houses, and export houses. They may also take the shape of export orders from major units or the manufacturing of parts and components for use in final exportable items. It has been primarily driven by the success of this sector's garment, leather, gems, and jewelry divisions.

C. Impact of Small-Scale on economy progression

The utilization of Local Resources: The requirements and expectations of the local community allow small companies to emerge in semi-urban and rural locations. Small companies are community-based, and they are focused on working for and creating jobs in a few locations. This allows any organization to make use of local resources such as talent, raw materials, demographic opportunities, and labor. When there is a large mobilization and usage of any local resources, the economic status of a certain area improves. Increased Tax Revenue: Industries must pay the appropriate amount of tax to government organizations, which is then utilized to develop rural areas and meet the demands of cities. Profits are sought for by enterprises as they operate. And when earnings increase, so are taxes paid to the country's government. The resulting taxes are used to fund upliftment services such as healthcare, education, and the defined field, among other things. Flexible and adaptable: Any new business opportunity is seized at the appropriate moment. Small firms have an advantage when it comes to adjusting and developing in the face of incoming developments. Small businesses are often manufacturers and distributors, and they are therefore capable of producing a personal touch with the business as well as its clientele. There is also no government interference in the case of small firms, which are constrained in terms of financing and scale.

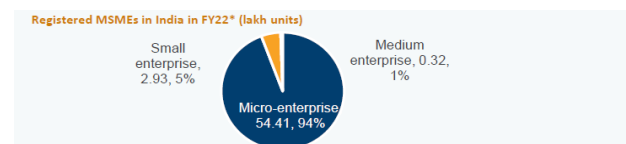


Fig. 2. Reduction of economic Reliance
Source: IBEF, 23rd November 2021

Small and micro businesses account for 99% of the registered MSMEs. The small enterprise accounting for 2.93 lakhs whereas micro-enterprises account for 54.41 lakhs. Only 1% or 0.32 lakh MSMEs are registered as of November 2021.

D. Diversified Role of Small-Scale Industries

Small scale industries are those in which production, manufacturing, and service provision are carried out on a small or micro size. Small scale enterprises have a vital role in producing employment, increasing people's financial position, developing rural regions, and addressing regional imbalances in a country like India.

1. Job creation: Small-scale industries are one of the main sources of job creation in India. Employment is one of the most essential aspects influencing a country's progress. As a result, the growth of small-scale enterprises should be fostered to provide more job possibilities in the country.
2. Smaller capital requirement: Smaller-scale enterprises require less capital than larger-scale companies. Because capital is scarce in emerging nations such as India, small-scale companies are best suited to preserving the balance.
3. Small scale enterprises provide for the development of entrepreneurial skills: Among the rural population, which does not have the breadth of big scale companies. These businesses aid in the efficient use of the resources available in rural regions, resulting in rural development.
4. Equal income distribution: small-scale companies generate equal income prospects for the youth of impoverished areas by creating job chances. This contributes to national progress in terms of employment and human development.
5. Maintains regional balance: It has been observed that large-scale industries are typically concentrated in major cities or confined to certain areas, causing people to migrate to these places in quest of work. As a result of such movement, the city becomes overcrowded, and the environment suffers. More natural resources must be used to support a big population.
6. Short production time: small scale enterprises have a shorter production time than large-scale businesses, increasing an increase in the flow of money in the economy.
7. Export Growth: Small-scale industries account for over 40% of India's total exports, accounting for a sizable portion of the money generated by exports. Small-scale enterprises contribute to the country's currency reserves, which decreases the burden on the country's balance of payments.
8. Reduce economic reliance: The proportion of rural people will be reliant on agriculture, putting a strain on the agricultural industry. Small-scale enterprises, by giving job possibilities to the rural people, open additional prospects for growth and open the way for an additional stable supply of occupations.

E. SWOT Analysis for Small-Scale Industry

Any unit requires enough infrastructure facilities to work effectively. However, most small-scale industries operate with

very minimal infrastructure. The goal of the government's cluster development initiative is to establish Common Facility Centres to obtain advanced tools, technology, design, and so on. Overall, trained human resources are an enormously vital component for success in the small-scale industry. It is also critical to recruit and maintain present human resources, as well as nurture fresh abilities. To tackle this question, the government launched several capacity-building initiatives. Such as entrepreneurship development initiatives and vocational training activities. We examine SWOT analysis about the entire aspect of small-scale industries.

The areas of STRENGTH for growth in the small sector industries are as follows:

Small-scale enterprises can be created for relatively little money. Adapting to change is critical in these industries; because they are not bound by bureaucratic inertia, it is usually simpler to adapt to the marketplace rapidly. A good customer relationship leads to increased accountability and maturity. Customers who are treated as though they are family are more inclined to return to a firm. Another advantage of these industries is the freedom to work for one's own company. Ability to develop and produce new goods and services more quickly and creatively than larger enterprises bogged down by bureaucracy. Meet the demands of your customers. If a change in the products or services supplied, or even the hours of operation, will better serve the clients, a small business can make the modifications.

WEAKNESSES in small-scale enterprises include the following:

It might be tough to reach enough potential clients to build a strong customer base. Potential clients may be less likely to conduct business with a small firm that does not provide a well-known brand of products or services. One of the most significant challenges for small business entrepreneurs is raising capital. Many company owners spend their own money at the outset of a firm or if the business fails since institutional lenders such as banks and government financial institutions are often hesitant to advance money to these tiny units. Small business owners must suffer high manufacturing costs, which is one of their weaknesses. Many small-scale firms lack competent people. Small enterprises do not take advantage of information technology and its applications, such as creating prototype machines for products recognized based on national resources and requirements. It is sometimes difficult to secure approval and a license from the state's Industrial Development, municipal agencies, and so on. One of the shortcomings of small enterprises is marketing. Aside from this, entrepreneurs encounter several marketing challenges as a result of-

- Inadequate standardization
- Ineffective design
- shoddy workmanship
- Inadequate quality control
- Precision is lacking

OPPORTUNITIES for small scale industries to grow:

Odisha's government developed the Odisha Industrial Policy in March 2007, to reinforce and expand industrial promotion and investment facilitation in the state, including the creation of an enabling environment. Odisha's government launched the "Odisha MSME Development Policy, 2009" in March 2009 to broaden the foundation for MSMEs' growth. The policy aimed at developing infrastructure to assist the industry and to enable the flow of financing (such as Odisha MSME Venture Capital). The Government of Odisha has announced the Draft Industrial Policy 2014, to make Odisha a more appealing location for investors by providing infrastructural and institutional assistance, as well as pre-and post-production incentives. The policy sought to provide institutionally the mechanism in the form of a single-window clearance, simplification, and rationalization of regulatory mechanisms; financial support measures in the form of incentives, such as interest subsidy at 7% per annum for term loans obtained by MSEs, reimbursement of VAT for new units (for five years), stamp duty exemption for land leased by Government / IDCO, certain exemption from payment of electricity duty, and employment. This policy aims to promote MSME-to-large-industry collaboration and to make concerted efforts to promote the growth of small businesses.

THREATS faced by small scale industries include:

Despite having abundant low-cost cash to acquire small businesses products and services, huge corporations and banks continue to pay slowly, negotiate harder, and demand more concessions from helpless small firms who are selling their souls "where the money is. New expenses, taxes, and conformance governments legislate and lobby for favorable conditions for companies on issues such as sustainability, diversity, healthcare, and fair taxation, smaller companies are being strangled. Now, additional fees, taxes, and compliance restrictions are eroding owners' willingness to risk, invest, and remain confident in their firms. Authorized vendor programs compel customers to buy only based on price. Corporations and governments are turning to third-party sourcing firms to shift responsibility and risk, limit small business vendor power, and commoditize their products and services.

The Contribution of Small-Scale Industries to Women's Empowerment in India

Small-scale industries not only play an important part in the growth of the Indian economy, but they also make significant contributions to the development of women employees in India. Male and female employees might find work in small-scale enterprises. Many female employees are working in small-scale industries, performing various sorts of tasks at various levels. The objective of small-scale industrial units is obvious; it seeks to give work to both highly skilled and less trained women in India for their entire development. Small-scale industries assist female employees in evaluating their capability and ability to accomplish a certain position inside the industrial structure.

Small-scale industrial units strive to give maximum job opportunities for female employees to make them financially

self-sufficient and to raise their level of living. Women employees who find work in the small-scale industrial sector can meet the financial necessities of their families while also saving some money for the future. This boosts the mood of female employees and has a beneficial influence on their overall job performance at the workplace. Most small-scale industrial companies provide suitable training facilities for their female employees to raise their level of productivity.

It also assists female employees in gaining confidence and improving their job quality. In this way, small-scale enterprises give a variety of amenities to their female employees to defend their interests and make them more comfortable at work. Women are always a vulnerable component of society in India; education allows women to expand their knowledge and abilities. Small-scale industries, on the other hand, use all types of women employees; highly skilled women employees execute higher-level positions, while less qualified women employees work in lower-level occupations in small-scale industry units.

Influence of Globalization on businesses:

Small-scale firms have an important role in the Indian economy since they contribute significantly to employment, output, and exports. globalization. However, small-scale businesses in India have experienced increasing competition as a result of globalization, domestic economic liberalization, and the weakening of sector-specific protective measures since 1991.

Liberalization approach favourable for business expansion:

The small industry sector has done wonderfully well, allowing our country to achieve tremendous industrial development and diversification. The SSI sector has made significant contributions to job development and rural industrialization because of its low capital intensity and high labor absorption. SSI has both issues and possibilities in the changing economic landscape, particularly in the period of liberalization. Only by investing optimally in technology, production processes, R&D, and effective marketing will the firm be able to compete on cost, quality, and product at the domestic and international levels. Infrastructure impediments continue to exist. Increased capital flows, human resource development, proper technology, and money for modernization should be the emphasis of SSI promotion in India.

Schemes of the Government and Recent Developments:

- In November 2021, the Small Industries Development Bank of India (SIDBI) signed an agreement with Google to trial social impact lending with financial support amounting to Rs. 1 crore (US\$ 133,939.60) at subsidized rates to micro firms. Google India Pt. Ltd. Rs. 110 crores for micro-companies as a COVID-19 crisis reaction.
- Cash invoice, a supply chain finance (SCF) platform, said in November 2021 that it will provide over Rs. 10,000 crore (US\$ 1.33 billion) in financing to MSMEs in the coming year, following the receipt of US\$ 1 million in Pre-Series A funding from Accel Venture Lab.

- MSMEs received marketing help from Sundaram Finance and the MSME Development Institute (Chennai) in October 2021. The entrepreneurial and managerial growth of MSMEs will be accomplished through an incubation program that will provide chances for innovators to explore and foster ideas for the creation of new goods.
- Aerospace Engineers Private Limited, a Tamil Nadu-based MSME, was awarded a contract by Boeing in September 2021 to manufacture and deliver crucial aircraft components.
- Walmart and Flipkart announced the completion of the first round of training for over 2,500 MSMEs under Casting spells, the supplier development program, in September 2021.
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- In September 2021, Flipkart introduced 'Flipkart Boost' to help digital-first consumer brands and MSMEs. Indian Bank will launch 'MSME Prerenal,' an online business-mentoring initiative for MSMEs in Odisha, in August 2021. In fiscal year 21 (FY21), the state (Odisha) accounted for 5% of Indian Bank's overall MSME credit exposure, representing a 39% rise.
- Amazon India said in July 2021 that it will expand its present nine distribution centers and open 11 new ones. This development strategy is projected to provide both direct and indirect job possibilities in India, while also strengthening Amazon's position in the nation.
- Razors pay purchased TERA Fin labs, a developer of embedded finance solutions, in July 2021 to expand capabilities in data-driven risk management, capital solutions, and credit underwriting to better support MSMEs financially.
- Amazon India launched Digital Kendra in Surat in July 2021, its first brick-and-mortar resource center to help 'katanas' and small companies go digital.
- The Federation of Indian Export Organizations (FIEO) signed a Memorandum of Understanding (MoU) in July 2021 with Aramex India, a logistics services provider, to support MSME exporters in India.
- Tide, a UK-based corporate finance platform, said in June 2021 that it will spend more than Rs. 1,000 crore (US\$ 134.21 million) in India over the next five years to leverage the growing SME (small and medium-sized companies) sector.

Way forward for Small-Scale business:

The Indian government intends to double the country's economy to \$5 trillion in five years. To that end, professional possibilities for young people have been created, and MSMEs may play an essential role in job creation. As a result, the government has taken steps to assist MSMEs in creating new industrial jobs. Furthermore, the government intends to increase the ratio of MSME exports and MSME GDP contribution. To attain these objectives, the government should invest in additional back-end services to boost the performance of the MSME sector. Which delivers goods and services to large industrial companies. The absence of technology-based industrial activity and minimal R&D expenditure limit the sector's ability to become competent. The government should support internationally accessible technologies to increase the product quality of MSME firms utilizing current resources. This necessitates the involvement of higher education institutions in product innovation research and development (R&D).

2. Conclusion

Small Scale Industries are critical since they contribute to job creation and economic growth in India. It promotes economic growth by enhancing urban and rural development. Small and medium-sized enterprises play a crucial role in supporting the government in expanding infrastructure and manufacturing industries, as well as eliminating pollution, slums, poverty, and other development projects. Cottage industries and small-scale manufacturing businesses are critical to India's economic development. Any amount of money spent in small-scale firms would aid India in reducing unemployment and encouraging self-employment. Despite being decimated by a pandemic, they contributed to the survival of the Indian economy.

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