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The Role of Five-Year Plans in the development of SSIs

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Abstract: Small Scale Industry (SSI) is considered more important by the Government of India and given priority sector, since it paves way for rapid industrialisation in the country. Small Scale industry (SSI) is a precondition for balanced growth of the economy of the country like India. Government of India promotes the development of Small Scale Industry by considering it as one of the indicators for the economic development of the country. SSI encourages production activities, generation of employment opportunities and increased export earnings as well. Government supports the Small Scale Industries through various promotional schemes and financial aid through various private and commercial banks and financial institutions. Different types of committees were formed for the development of SSIs and considerable financial support is given in various five-year plans. Despite promotion and financial supports from the government many Small Scale Industries are facing the problem of finance and many banks experiencing increase in Non-Performing Assets (NPA). To overcome these issues several debt recovery mechanisms must be strengthened and financial support should be given to Small Scale Industries by following insistent assessment methods. This research article incorporates the general picture of five year plans from first five year plan to twelfth five year plan.

Keywords: SSI, precondition, Industry, NPA, Five-Year Plan, Government, export

I. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. The SSI sector is an important component of industrial base of India and can be the pouring force of its development efforts. Small industry is a precondition for balanced growth of the economy of country like India, which is second highly populated country after China. SSIs include the traditional small industries besides the modern small scale industries. The most significant aspect of small industry development is that this sector has encouraged economic activity to far reaching limits. The encouragement and development of Small Scale Industrial sector emphasize double objectives, namely, employment opportunity generation and poverty alleviation in the country. The small scale industrial sector to a significant level is performing its part well in providing employment and thereby alleviation of poverty. It has created entrepreneurship opportunities among the small industrialists and the policy makers to rely on its strength. After independence in 1947, the Government of India (GOI) dedicated itself to a policy of Planned Economic Development of the Country. The first five-year plan was enforced in April 1951 by GOI. Till now the GOI has implemented twelve five-year plans and six annual plans and has given due consideration to SSIs and Rural Development.

II. FIVE-YEAR PLANS AND SMALL SCALE INDUSTRIES IN INDIA

a. FIRST FIVE-YEAR PLAN (1951-56)

It was considered as driver for agricultural development and Small Scale Industry and rural development. The central theme was that with the development of this sector excessive stress on agriculture which had proved harmful for decades could be significantly reduced. During this plan, the Cottage Industries Board that was set up in 1947 it was divided into three boards; (1) All India Handloom Board, (2) All India Handicrafts Board and (3) All India Khadi and Village Industries Board. In addition to this, another three more boards were set up. These were the Small Scale Industries Board, Coir Board and Central Silk Board. These boards together made the organizational structure through which the promotional and development efforts of the government were to be carried out. In addition to this, four Regional Small Industries Services Institutions, with a number of branches, were also set up to provide technical assistance to the SSIs. This plan envisaged an outlay of Rs.43 crore (i.e., 2.2% of the total plan outlay and 43.9% of the total industrial outlay) for the development of village and Small Scale Industries. Out of the allocated amount, Rs.30 crore (69.8% of the allocated amount) was spent on rural villages and SSIs.

b. SECOND FIVE-YEAR PLAN (1956-61)

During this plan importance was laid on the development of Small Scale Industries and ancillaries to large-scale industries and on organizing industrial cooperatives. The programs of Industrial Estates, started in 1955 was extended and about more than 60 industrial estates were set up to provide factory adjustment and a number of common facilities like power, water, transport, etc., at the same place. The GOI has reserved production of certain items to small-scale sector and assistance to SSIs through different promotional schemes such as credit, training facilities, technical advice, supply of improved tools and equipment on easy terms, etc., was extended. An amount of Rs.180 crore (3.9% of the total plan outlay and 16.1% of the total industrial outlay) was allocated for the development of Small Scale Industries. But the actual expenditure incurred during the plan was Rs.175 crore which was 97.2% of the total allotted amount to SSIs.

c. THIRD FIVE-YEAR PLAN (1961-66)

The main objectives of this plan were small industries programs were to improve productivity of the worker to expand the availability of institutional finance, and to pay special attention to the growth of small scale industries in rural areas and small villages. The three Annual Plans 1966 to 1967, 1967 to 1968, and 1968-1969 were implemented by GOI and due attention was given for the development of SSIs. During this plan the GOI has allocated Rs.264 crore which is 3.1% of the total plan outlay and 13.2% of the total industrial outlay was made for the development of SSIs in the Third Five-Year Plan and out of which Rs.240 crore that was 90.0% of the allocated amount was spent for the growth of this SSIs sector whereas Rs.126 crore was proposed for three Annual Plans, i.e., 2.1% of the total plan outlay and 8.7% of the total industrial outlay.

d. FOURTH FIVE-YEAR PLAN (1969-74)

GOI and Planning Commission has increased list of items reserved for production in the small-scale sector from 180 to 340 during this plan. The main aim of the development programs for Small Scale Industries was optimum utilization of the capacity already established, rigorous development of selected industries including ancillaries industries and industrial cooperatives and subject to the criteria of feasibility promotion of industries in semi-urban, rural and backward areas. GOI senctioned total amount of Rs. 293 crore (1.8% of the total plan outlay and 9.3% of the total industrial outlay) was earmarked for the growth and development of rural villages and Small Scale Industries and out of which Rs.251 crore (87.7% of the allocated amount) was spent on this sector.

e. FIFTH FIVE-YEAR PLAN (1974-79)

The Fifth Plan allocated Rs.510 crore (1.3% of the total plan outlay and 5.2% of the total industrial outlay) for the development of rural village and Small Scale Industries. But out of which, only Rs.387 crore (75.9% of the allocated amount) was spent on this sector for the development. During the Annual Plan, 1979-80, 75% of the amount allocated (Rs.192 crore out of Rs.256 crore) was spent which stood at 2.1% of the plan outlay and 9.7% of the industry outlay respectively. It has adopted an approach to reach as large a proportion of traditional artisans as possible who belong generally to socially backward and economically weak sections of the community and ensure the continued and full employment in their present occupations in order to preventing their displacement from the existing crafts. Besides, it was emphasized that small-scale entrepreneurs should get all facilities under the same roof. During this plan the number of reserved items again increased to 807. Accordingly, setting up of District Industry Center was recommended for the development and growth of small-scale industries.

f. SIXTH FIVE-YEAR PLAN (1980-85)

Sixth plan had highlighted the need for renaissance of traditional ancillaries industries and enhancing their productivity by upgrading of skills, methods and techniques. A positive effort was made to scatter these industries over a wide area, particularly in the rural and semi urban areas. The definition of Small Scale Industries and ancillaries was also reformed. The growth target of 8% per annum in respect of the output of the village and SSIs was set up in this plan. An amount of Rs 1780 crore (1.4% of the total outlay and 11.9% of the industrial outlay) was allocated for growth of rural village and Small Scale Industries and total expenditure of Rs1410 crore i.e., 79.2% of the total amount allocated was incurred on this SSIs sector.

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g. SEVENTH FIVE-YEAR PLAN (1985-90)

Seventh plan (1985-90) emphasized on rationalization of fiscal system to ensure rapid growth of rural villages and Small Scale Industries infrastructure facilities were to be strengthened at various levels. Adoption of modern management techniques and systems were to be promoted. Development and propagation of appropriate technology to reduce drudgery, improve productivity and quality, and reduced the dependence on subsidies received due consideration. Initiative to be taken to improve wage rates at various levels, increase earnings and continuity of employment opportunity so that artistic skills do not become vanished. Measures were to be taken to adopt sound marketing strategies both for domestic and export markets. This plan allocated Rs 2752 crore (1.5% of the total outlay and 12.3% of the industrial outlay) to village and SSIs sector. But the actual expenditure during the plan was estimated at Rs 3249 core. The two annual plans 1990-91and 1991-92) also spent Rs1819.1 crore, i.e. 1.5% of the total outlay on development of rural villages and SSIs sector. During these annual plans the industrial policy liberalized the licensing and the products manufactured by the SSIs were exempted from obligatory licensing.

h. EIGHTH FIVE-YEAR PLAN (1992-97)

This planning period aimed at a comprehensive review of laws and procedures and to make them suitable for entrepreneurs so that entrepreneurs would be able to concentrate on efficient running of their business units. It has laid down the importance of adequate availability of credit rather than concessional credit. It also recognized the need to promote Industry Associations to form marketing organizations, which, besides marketing would go into the quality aspect of products. In this plan GOI has allocated Rs 6334 crore, i.e., 1.5% of the total outlay was allocated for the development of villages and SSIs. But actual spending was stood at Rs 7265.7 crore, i.e., 1.48% of the total outlay.

i. NINETH FIVE-YEAR PLAN (1997-2002)

This plan has laid down the need to review the list of reserved products of the small sector as well as to increase the investment limit to this SSIs sector. It has founded the key problems and issues faced by the SSIs sector like insufficient flow of credit, use of absolute technology and equipment, poor quality standards and inadequate infrastructural facilities etc. To enhance the flow of credit, the government has initiated to setting up specialized branches of banks exclusively meant for providing credit facilities to SSIs. Small Industry Development Bank of India (SIDBI) has already set up a Technology Development and Modernization Fund (TDF) with funding of Rs 200 crore. The government also set up Technology Trust Funds in association with the state governments and industry associations for exchange and acquisition of advanced technologies in SSI. The scheme of Integrated Infrastructure Development centre (IIDC), started in the eighth plan and it was continued during the ninth plan with more incentives and financial aid. Besides the government undertook several policy measures like allowing 24% equity participation to large and medium units in SSIs, the ease of procedures and labour laws pertaining to SSI units, and the enhancement of investment limit from Rs 60 lakh to Rs 3 crore for the SSIs and from Rs 5 lakh to Rs 25 lakh for the tiny industries. But the investment limit of Rs 3 crore was reformed to Rs 1 crore in 1999-2000.

j. TENTH FIVE-YEAR PLAN

During the Tenth Plan target of ten percent industrial growth has not been met; however there was speeding up in the industrial growth rate during the Plan period and the target was exceeded in the terminal year. The CAGR increased from 4.5% in the Ninth Five Year Plan to 8% in the Tenth Five Year Plan. Manufacturing showed particular dynamism, the CAGR rising from 3.8% in the Ninth Five Year Plan to 8.7% in the Tenth Five Year Plan. The Tenth Five Year Plan period saw a striking reversal of trend from the outset and in 2005–06 it had increased to 13.6%. Registered manufacturing showed a higher level of GCF rising from 3.8% in 2001–02 to 10.4% in 2005–06. The annual growth rate of manufacturing increased consistently during the period, registering 12.3% in 2006–07. For the first time in many years, industrial growth at 11% equalled the growth rate in services, with manufacturing outstripping both. After having reached a high of 13.53% in 1995–96, the rate of GCF in manufacturing as a percentage of GDP at market price showed a declining trend, bottoming out in the terminal year of the Ninth Plan.

k. ELEVENTH FIVE-YEAR PLAN

The 11th plan would aim at accelerating the rate of growth of the industrial sector to ten per cent and manufacturing growth to twelve per cent per annum. Continuing assurance to priority lending for MSMEs remains a vital characteristic of development banking. The 11th five-year plan must ensure that the policies are adequately flexible to support the development of micro finance facilities. In this plan, the strategy for manufacturing proposed by the National Manufacturing Competitive Council (NMCC), which includes the following initiatives, should be operationalised:

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1. Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must encourage and be steady with the unified national market, so that the Indian Industry can reap the benefit of economies of scale and scope.
2. While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.
3. Technological modernization will be the key to high SSI industrial growth.
4. State Governments should take steps to create an investor friendly climate, providing a Single Window Clearance of applications for the establishment of industrial units. Labour-intensive mass manufacturing based on relatively lower skill levels provides an Opportunity to expand employment in the industrial sector.

One of the important tasks of the 11th Five year Plan would be to review the position regarding the availability of adequate credit (both term loan and working capital) to small and medium enterprises (SSIs) from commercial banks and other financial institutions and suggest measures to abolish the deficiencies that are earmarked. It can be observed that the number of MSMEs have increased from 67.87 lakh units in 1990-91 to 311.52 lakh units in 2010-11. There has been a steady growth in investments production employment and exports during 2010-11 over 1990-91. The investment and production increased from Rs. 93,555 crore and 78,802 core in 1990-91 to Rs. 7, 73,487 crore and Rs. 10, 95,758 crore in 2010- 2011 respectively at current prices. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 158.34 lakh in 1990-91 to 732.17 lakh during 2010-2011.

I. 12TH FIVE-YEAR PLAN AND SMALL SCALE INDUSTRIES

The Report of the Working Group on Micro, Small & Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017) has made some important suggestions to make MSME sector a essential part in the country's economic growth. The sector is a merge of tradition and modern, with informal sector enterprises at the bottom of 'MSME Pyramid'. The process of liberalization and global market integration has opened up wide opportunities for the MSMEs sector, as also new challenges. The new determined National Manufacturing Policy, which aims to make India a manufacturing hub and increase the sectoral share of manufacturing in GDP to 25 per cent in the next decade from the present level of 15-16 per cent, requires extensive support from MSME sector and quantum jump in the growth rate of MSME sector from the existing level of 12-13 % per annum. This requires convergence of efforts and resources.

The major issue is of capacity building of Small Business Service providers to become efficient and pro-active agents of change. This needs junction of Sound Macro-economic policies, Seamless Institutional Structures, Outcome based performance indicators; Performance based financing, Good Governance - Transparency and Accountability Systems, Independent Monitoring and Evaluation, Effective participation by target beneficiaries. The Working Group has pin pointed the following issues that hinder the growth of MSMEs: Regulation, Technology, Credit & Finance, Orthodox Marketing, Skills, Institutional Framework, Advocacy and Empowerment, Transparency. The Group proposed that during the 12th five year Plan period, modular industrial estates with plug and play facilities in the respective areas may be launched. For providing venture capital, globally angel/venture fund are the prime source of funds to the initiatives. While these funds finance a project on the basis of their own risk analysis and valuation, the Groups suggested that Government can provide some comfort which could be in the form of a guarantee or by co-investment through a Government promoted venture fund. The venture capital fund launched by SIDBI can play major role in this regard.

The Working Group recommends following broad allocations during 12th five year Plan Period for all proposed involvements under major verticals as well as in KVI and Coir Sector:

Sr. No.	Sectors	Allocation of amount in 12th Five Year Plan (Cr.)
1	Credit & Finance	19450
2	Technology Up gradation	9500
3	Infrastructure Development	11360
4	Coir Sector	870
5	Institutional Structure	3100
6	Skill Development & Training	3600
7	Marketing & Procurement	2110
8	Khadi & Village Industries Sector	14800
Total Amount		**64790**

III. CONCLUSION

Government of India promotes the development of Small Scale Industry by considering them as key driver of the economic development of the country. SSI promotes production activity, employment opportunities generation and increase export earnings.

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Government supports the SSIs through various promotional schemes, subsidies and financial support through various private, commercial banks and financial institutions. Various committees were formed to review the performance of SSIs and taken promotional measures for the development of SSIs and sufficient financial support and credit is given in various five year plans. Despite encouragement and support from the government many SSIs facing the problem of finance and many banks experiencing enhance in Non-Performing Assets. Govt. should promote the domestic production through SSIs and restrict the import by increasing import duty. The sufficient credit, infrastructure facilities should be provided to this sector for its promotion.

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