

## Impact of New Financial Reforms on Small Scale Industries

**Dr. Pooja Chaturvedi<sup>1</sup>, Dr. Atul Loomba<sup>2</sup>, Dr. C. K. Buttan<sup>3</sup>**

<sup>1</sup>Asst. Prof., Dept of Management, AISECT University, Bhopal (M.P.) India.

<sup>2</sup>Asst. Prof., Dept of Management, AISECT University, Bhopal (M.P.) India.

<sup>3</sup>Professor & Head, Department of Commerce & Management Studies, Safia College, Bhopal (M.P.) India.

### ABSTRACT

*The actual driving force to the globalization process was provided by the new economic policy introduced by the government of India in July 1991 at the order of the IMF and the World Bank. Globalization has led to an asymmetrical competition between giant MNCs and dwarf Indian ventures. The small scale sector is a very important element of overall industrial sector of the country. The small scale sector forms a most important part of Indian industry and contributing to a significant proportion of production, exports and employment therefore the present study analyzes the "Impact of new financial reforms on Small Scale Industries". The main theme of the paper is to evaluate the performance of small scale sector before and after new financial reforms and compare them with average annual growth rates to know the impact of financial reforms on the performance of small scale sector. The era of the study is 1985 to 2015 and based on secondary information.*

**Keywords:** Small Scale Sector, New Economic Policy and Financial Reforms, Globalization, Liberalization, Privatization

### I INTRODUCTION

In the period of earlier the world has turn into a small town due to the Globalization. Globalization signifies process of liberalization, Privatization, and Internationalization. The completion has become in every field. Nations fight with the plan to sustain their economy by introducing new reforms and announcing incentives to mainly their economic indicators. The Indian economy has initiated to concentrate on the development of small industrial base, which have been contributing positively to the India's GDP. India's GDP growth is recovered than other developing countries.

Indian government has been announced a separate policy for the small, medium, tiny and also village enterprises as on 6th august 1991. It was the first time that government had issued a separate policy statement for small, medium, tiny and rural enterprises. In the past small scale sector merited only two or three paragraph more in the general industrial policy statement. Finally government considers it importance to make a separate policy statement for small enterprises were welcome recognition to the dynamic and vibrant nature of the sector. This policy statement proposed some path-breaking measures to mitigate the handicaps. That faced up by small enterprises respect government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector main features of the small industrial policy of 1991.

### II FINANCIAL REFORMS

- (a) Equity participation by other undertaking (Domestic & Foreign) up to 100 percent.

- (b) Advertising of mass consumption goods under common brand name.
- (c) Setting up of sub-contracting exchanges.
- (d) Establishment of technology development cell.
- (e) Emphasis to shift from cheap credit to adequate credit.
- (f) Opening of quality counseling and technology information centre.
- (g) Introducing of factoring services by Bank.
- (h) New technology upgradation programs.
- (i) Reduction of trade barriers to allow force flow of goods and services among nation states.
- (j) Creation of environment in which free flow of capital can acquire place among nation stated.
- (k) Creation of environment permitting liberated flow of technology.
- (l) Last but not the least from the outlook of developing countries, creation of environment in which free movement of labor can take place in different countries of the world.

### III SMALL SCALE INDUSTRY AND ITS IMPORTANCE

Economic development of a country is directly related to the level of industrial growth. The development of industrial sector leads to a greater utilization of natural resources, production of goods and services, creation of employment, opportunities and improvement in the general standard of living. India has also been striving to develop the country's industrial base over since independence. It has framed various policies aimed at development of industries in the public and private sector. Small scale industries play a key role in our planned development with its advantages of low investment, high potential for employment generation, dispersal of industries to rural and semi urban areas and diversification of the industrial

base. The small scale industries sector has been appropriately give a strategic position in our planned economy towards the fulfillment equitable growth.

The definition of small scale sector is at present Reserve Bank of India uses an expanded definition of small scale industries which includes:

- (a) Small scale industrial undertaking which are engaged in the manufacturing, processing and preservation of goods in which the investment in plant and machinery not to exceed Rs. 5 crore. These would include units engaged in mining or quarrying servicing and repairing of machinery.
- (b) Tiny enterprises whose investment in plant and machinery do not exceed Rs. 25 lacs.  
The development of small scale industries is being given due importance by the government in order to achieve the following objectives.
  - (i) To provide a more equitable distribution of national income
  - (ii) To provide a spare parts to large industries and assist them to their production.
  - (iii) To provide additional employment opportunities.

Small scale industry in India has been facing an increasingly competition due to:

- (i) The formation of the WTO (World Trade Organization) in 1995. WTO has forcing to member-country to remove the restriction of import.
- (ii) Liberalization of investment capital favoring foreign countries.
- (iii) The cumulative impact of the domestic economic reforms on small scale industries of India is it field fight with competition in international market. The government of India announced the separate policy for small, medium, tiny and village enterprises on 6th august 1991 and started some development programs for the development of small scale sector. The main objective of the present study is to analyze the impact of financial reforms on the growth of small scale industries.

#### IV METHODOLOGY

The current study is mainly depending on secondary data. The data for the study purpose has been taken mainly from Ministry of Micro, Small and Medium Enterprises, Government of India published by Reserve Bank of India in Handbook of Statistics on Indian Economy. In the present study an attempt has been made to analyze the impact of new financial reforms on the growth of small scale industries. The study has been conducted data related to performance of small scale industries in India. The growth pattern and

some aspects of productivity in small scale sector in India have been calculated. The small scale sector has been studied with the belief that they hold the largest share of industrial sector in India. The reference period for the analysis of the data has been taken from 1985-86 to 2015-16. The study period has been divided into two parts - 1) Pre period (1985- 86 to 1989-90) and 2) Post period (1990-91 to 2014-15) of new financial reforms.

#### V SCOPE OF THE STUDY

All information are collected from the period 1985-86 to 1989-90 it is the pre new reforms and 1990-91 to 2014-15 it is the post new reforms. Means 30<sup>th</sup> years of performance of pre and post new reforms have been compared. In this study there is a limitation in Statistical data collection but we are able to collect it and complete this study.

#### VI ANALYSIS & INTERPRETATION

The Small Scale industry plays a significant role in boosting the overall economic growth of an economy. The importance of SSI sector in providing large scale employment is supreme importance. The policy framework right from the first plan has highlighted require for the development of India. The impact of Industrial liberalization and deregulatory policies on the growth of small scale industries has been captured by computing and subsequently comparing the growth rates between pre and post new financial reforms period. In this section the overall performance of SSI has been examined in depth on the basis of the different parameters such as number of units, production, employment and exports.

#### VII NUMBER OF SSI UNITS

6th august 1991 and started some development programs for the development of small scale sector. The main objective of the present study is to analyze the impact of financial reforms on the growth of small scale industries.

The working number of units in small scale sector in pre and post new financial reforms period in India is show in the following table.

Year	Units	% Increased / Decreased	Indication
1985-86	0.55	N.A.	N.A.
1986-87	0.59	7.27	Positive
1987-88	0.67	13.56	Positive
1988-89	0.73	8.76	Negative
1989-90	0.81	10.96	Positive
1990-91	0.87	7.41	Negative
1991-92	0.96	10.34	Positive
1992-93	1.06	10.42	Positive
1993-94	1.16	9.43	Negative
1994-95	1.24	6.90	Positive
1995-96	1.35	8.87	Positive
1996-97	1.46	8.15	Negative
1997-98	1.58	8.22	Positive
1998-99	1.71	8.23	Positive
1999-00	1.82	6.43	Negative
2000-01	6.79	273.08	Positive
2001-02	7.06	3.98	Negative
2002-03	7.35	4.11	Positive
2003-04	7.65	4.08	Negative
2004-05	7.96	4.05	Negative
2005-06	8.28	4.02	Negative
2006-07	8.62	4.11	Positive
2007-08	8.97	4.06	Negative
2008-09	9.34	4.12	Positive
2009-10	9.72	4.07	Negative
2010-11	10.11	4.01	Negative
2011-12	10.52	4.06	Positive
2012-13	10.95	4.09	Positive
2013-14	11.40	4.11	Positive
2014-15	11.86	4.04	Negative

Source: Ministry of Micro, Small and Medium Enterprises, GOI  
AAGR= Annual Average Growth Rate of Exponential Growth Rate.

## VIII PRODUCTION

Table no. 2

Provides information about the growth of Small Scale Sector on production

Year	Units	% Increased / Decreased	Indication
1985-86	11000	19.51..	..
1986-87	12400	12.73	Negative
1987-88	14300	15.32	Positive
1988-89	15800	10.49	Negative
1989-90	21600	36.71	Positive
1990-91	28100	30.09	Negative
1991-92	32600	16.01	Negative
1992-93	35000	7.36	Negative
1993-94	41600	18.86	Positive
1994-95	50500	21.39	Positive

1995-96	61200	21.19	Negative
1996-97	72300	18.14	Negative
1997-98	87300	20.75	Positive
1998-99	106400	21.88	Positive
1999-00	132300	24.34	Negative
2000-01	78802	-40.44	..
2001-02	80615	2.30	Negative
2002-03	84413	4.71	Positive
2003-04	98796	17.04	Positive
2004-05	122154	23.64	Positive
2005-06	147712	20.92	Positive
2006-07	167805	13.60	Negative
2007-08	187217	11.57	Negative
2008-09	210454	12.41	Negative
2009-10	233760	11.07	Negative
2010-11	261297	11.78	Positive
2011-12	282270	8.03	Positive
2012-13	314850	11.54	Positive
2013-14	364547	15.78	Positive
2014-15	429796	17.90	Negative

Source: Ministry of Micro, Small and Medium Enterprises,

### IX EMPLOYMENT

In India, the major quarrel for promoting small scale sector is that the enterprises provide avenues for gainful employment. The performance of small scale sector in creating employment opportunities is actually a matter of great interest. The following table provides the information of small scale sector on the growth of employment:

Year	Units	% Increased / Decreased	Indication
1985-86	4.59	..	..
1986-87	4.98	8.50	..
1987-88	5.40	8.43	Negative
1988-89	6.38	18.15	Positive
1989-90	6.70	5.02	Negative
1990-91	7.10	5.97	Positive
1991-92	7.50	5.63	Negative
1992-93	7.90	5.33	Negative
1993-94	8.42	6.58	Positive
1994-95	9.00	6.89	Positive
1995-96	9.60	6.67	Negative
1996-97	10.14	5.63	Negative
1997-98	10.70	5.52	Negative
1998-99	11.30	5.61	Positive

1999-00	11.96	5.84	Negative
2000-01	15.83	32.36	..
2001-02	16.60	4.86	Negative
2002-03	17.48	5.30	Positive
2003-04	18.26	4.46	Negative
2004-05	19.14	4.82	Positive
2005-06	19.79	3.40	Negative
2006-07	20.59	4.04	Positive
2007-08	21.32	3.55	Negative
2008-09	22.06	3.47	Negative
2009-10	22.91	3.85	Positive
2010-11	24.09	5.15	Positive
2011-12	25.23	4.73	Negative
2012-13	26.37	4.52	Negative
2013-14	27.53	4.40	Negative
2014-15	28.76	4.47	Positive

Source: Ministry of Micro, Small and Medium Enterprises, GOI.

### X EXPORTS

In the background of liberalization and globalization of Indian economy, the performance of small scale sector in the field of exports needs a closer look. The exports from small scale sector found to be higher from the total export. The exports of small scale sector are shown in table no 3.

Year	Units	% Increased / Decreased	Indication
1985-86	500	N.A.	N.A.
1986-87	800	60.00	N.A.
1987-88	800	0	Negative
1988-89	1100	37.50	Positive
1989-90	1200	9.09	Negative
1990-91	1600	33.33	Positive
1991-92	2100	31.25	Negative
1992-93	2000	-4.76	Negative
1993-94	2200	10.00	Positive
1994-95	2500	13.64	Positive
1995-96	2800	12.00	Negative
1996-97	3600	28.57	Positive
1997-98	4400	22.22	Negative
1998-99	5500	25.00	Positive
1999-00	7600	38.18	Positive
2000-01	9664	27.16	..
2001-02	13883	43.66	Positive
2002-03	17184	28.10	Negative

2003-04	25307	42.30	Positive
2004-05	29068	14.86	Negative
2005-06	36470	25.46	Positive
2006-07	39248	7.62	Negative
2007-08	44442	13.23	Positive
2008-09	48979	10.21	Negative
2009-10	54200	10.66	Positive
2010-11	69797	28.78	Positive
2011-12	71244	2.07	Negative
2012-13	86013	20.73	Positive
2013-14	97644	13.52	Negative
2014-15	124417	27.42	Positive

Source: Ministry of Micro, Small and Medium Enterprises, GOI

## XI CONCLUSION AND FINDINGS

In this study an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between pre-and post – new financial reforms period reveals that the new financial reforms had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. A fall in the rate of growth of number of units and employment generation in post liberalization period is a matter of serious anxiety for the policy-makers and planners. The result showed that globalization is almost a complete failure on growth frontage. To conclude, we can say that the recent trend of growth of SSI sector showed the faith of Indian economy on globalization and liberalization, which has failed to render a positive impact on the growth of Indian Small Scale Sector. No indicator shows the positive impact, in each case the average growth rate is less in post- new financial reforms period than pre- new financial reforms period. The main findings of the study are:

- In 2000-01, the growth of number of units is too much increased. It is increase from 6.43 to 273.08 percent. The units are increased from 1.82 million to 6.79 million in numbers.
- The growth rate of production is decreased at a high rate in 2000-01; it showed the negative trend of growth and reached at - 40.44 percent growth rate of production. Because of open market outer country sold their product easily in our country at fewer prices which reduce the demand of country products and so that production has also affected.

- In the very first year of new financial reforms the growth rate of employment has been increased which showed that after new financial reforms employment opportunities were increased due to open market and liberalization of establishing units in India by the outsiders which generate employment for our country.
- The value of exports has increased after the globalization means Indian SSI sector more concentrate on sell their products in out of country to earn more and more income.
- In 2015-16, the value of exports is too much increased and the growth rate of exports is highest in 2001-02 due to subsequent change in Indian economy.
- Overall, the impact of new financial reforms of the growth of small scale sector is negative which a serious matter is for planners.

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