UNIT 10 : THE ROLE OF THE TERTIARY SECTOR IN THE INDIAN ECONOMY

UNIT STRUCTURE

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10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- conceptualise the service sectors and point out its various components
- outline the importance of services sectors in Indian economy and discuss its changing role.
- describe the growing dimensions of various components of services sector.
- discuss the issues and challenges faced by services sector in India.
- put forward certain interventions required to addresses some challenges faced by the services sector in India and strengthen it for furthering its growth.

10.2 INTRODUCTION

If we carefully look at the growth trajectory of Indian economy, it is clear that India's present growth is service sector-led growth. Over the years, the share of services in Gross Domestic Product (GDP) of India has been

- The National Commission for Enterprises in the Unorganized Sector (NCEUS) has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.
- There is significant opportunity for overseas investors to look at SMEs in India as a destination for their funds. The sector has proved its capabilities as a key player in the Indian, and consequently, the global economy. Many of today's corporates had their origins in smaller enterprises, which were able to expand in line with emerging opportunities. There are no policy restrictions on FDI in small units, except if they are in the reserved category (about 114 products).
- Under the small scale policy, equity holding by other units including foreign equity in a small scale undertaking is permissible up to 24 per cent. However, there is no bar on higher equity holding for foreign investment if the unit is willing to give up its small scale status. In case of foreign investment beyond 24 per cent in a small scale unit which manufactures small scale reserved item(s), an industrial license carrying a mandatory export obligation of 50 per cent is required to be obtained.



CHECK YOUR PROGRESS

Q 5: State whether the following statements are True or False.

a) MSMED Act was passed in 2006.

b) NCEUS was set up with a focus on the informal sector.

Q 6: Is registration of SSI units mandatory? Justify your position. (Answer in about 40 words)

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9.6 PROBLEMS OF SMALL SCALE INDUSTRIES IN INDIA AND THEIR REMEDIAL MEASURES

9.6.1 Problems faced by the Small Scale Industries

The major problems faced by this sector may be categorized as: problems in production, lack of access to timely and adequate credit, technological obsolescence, infrastructural bottlenecks, marketing constraints and a plethora of rules and regulations. These are discussed below in detail.

- The production problems faced by the SSIs include: unavailability raw materials at the actual market price, capacity utilization, and storage problems. It so often happens that due to the absence of proper access of raw materials, the SSIs have to buy them at exorbitantly high prices.
- The marketing problems arise because of the dealing in only one product, cut throat competition, adopting cost oriented method of pricing, lack of advertisement, not branding their products etc.
- The financial problems include investment risks, procurement of loan from banks and their repayment, meeting day to day expenses and the like. Many a time, SSIs have to take loans from the informal sector at a very high rate of interest to fulfill immediate credit needs.
- The labour problems include highly demanding employees, absenteeism, lack of skilled workers and transportation of workers.
- Infrastructure problems also add coal to the fire. Unless and until you have the infrastructure in its place the rest of the efforts are futile.
- Majority of the small scale units use old techniques of production and outdated machinery and equipment. Up-gradation of the

the registration of SSI units has been dispensed with. Now, the entrepreneur files the Entrepreneur Memorandum and gets an acknowledgement.

Ans to Q No 7 : True

Ans to Q No 8 : Technology Bureau for Small Enterprises has been jointly set up by SIDBI and United Nations-Asian Pacific Centre for Transfer of Technology (UN-APCTT).

Ans to Q No 9 : Tool Room and Training Centres were set up by Small Industries Development Organization (SIDO) in order to assist small scale units in their technical up gradation by providing good quality tools.

9.10 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words).

Q 1 : Highlight the role of SSIs in the Indian economy.

Q 2 : Briefly discuss the measures adopted by the government for the promotion of the SSI sector.

Q 3 : Discuss the major problems faced by the SSIs.

Q 4 : Write a brief note on the policy initiatives adopted by the government in the year 2004-05 for the benefit of the SSI sector.

Essay type Questions (Answer each question in about 500 words).

Q 1 : Discuss the role played by the SSIs in the Indian economy. What are the major problems for this sector? Put forward some remedial measures.

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- There is no accepted line of distinction between cottage and small-scale industries.
- To say that small scale units are an important part of the manufacturing sector is a very big understatement. This sector has played very important in the industrial as well as economic growth of the country.

9.8 FURTHER READING

1) Agrawal, A. N. (2019). Indian Economy: Developmental Problems and Policies. New Delhi: New Age International Publishers.
2) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.
3) Kapila, U. (2003). Indian Economy since Independence. New Delhi: Academic Foundation.
4) Misra, S.K. & Puri, V.K. (2018). Indian Economy. New Delhi: Himalya Publishing House.

9.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1 : a) False b) False

Ans to Q No 2 : As per the latest norms adopted by the government in 1999, a unit is considered as an SSI unit, if its investment in fixed assets like plants and equipments either held on ownership terms, on lease or on hire purchase is less than Rs 1 crore.

Ans to Q No 3 : a) False b) True

Ans to Q No 4 : The major aims of promoting the SSI sector in India are:

- To develop this sector as a major source of employment To encourage decentralized industrial expansion,
- To ensure equitable distribution of income, and
- To mobilize capital investment and entrepreneurship skills.

Ans to Q No 5: a) True b) True

Ans to Q No 6 : No, registration of the SSI is no more mandatory. After the passing of the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006' and its coming into existence since October 2006,

technology and achieving economies of scale is one of the major problems facing the sector. Lack of finance, lack of research & development endeavour to design low cost, indigenous technologies, and lack of proper market information about the different varieties of technologies is hindering the progress of this sector.

9.6.2 Remedial Measures

With a view to fostering the growth of MSME sector in the country, the government has taken up several initiatives. Some of them are:

- To overcome the problem of shortage of supply of the raw materials at the market price, government should adopt some suitable policy initiatives. For example, the government can fix the minimum and maximum price limits of the raw materials as well as keep the SSIs informed about the current market movements.
- ISO 9000/14001 Certification Fee Reimbursement Scheme was introduced in order to promote technological upgradation, quality improvement and better environment management by the MSEs.
- National Manufacturing Competitiveness Programme (NMCP) has been launched by the government in order to help MSMEs improve their competitiveness. This scheme aims at addressing the technology/quality upgradation needs of the sector, mainly in the public-private partnership mode.
- Small Industries Development Bank of India (SIDBI) in collaboration with United Nations-Asian Pacific Centre for Transfer of Technology (UN-APCTT) had established Technology Bureau for Small Enterprises (TBSE) to bring synergy between technology and finance in the small and medium enterprise (SME) sector. The major objectives of the company are to:
  - provide professional services for technology transfer in order to enhance market competitiveness of small and medium

enterprises and promote sustainable development.

- ❍ provide micro, small & medium enterprises information on sources of technology and means of accessing them.
- ❍ identify business partners willing to collaborate and extend support to tie up financial assistance and other requirements such as drafting agreements, obtaining various approvals and preparation of business plans required for transfer of technology.
- ❍ provides financial syndication through banks and financial institutions.

➢ Besides, National Small Industries Corporation Ltd. (NSIC) has taken up an initiative to enhance technology options for small scale industries.

➢ Small Industries Development Organization (SIDO) has set up 10 Tool Rooms and Training Centres in the country in order to assist small scale units in their technical up-gradation by providing good quality tools.

➢ Policy initiatives in SSI sector during 2004-05: The National Commission on Enterprises in the Unorganized/Informal Sector was set up in September 2004 to suggest measures for the improvement of flow of credit, continuous supply of raw materials, improvement of infrastructure and marketing facilities and up-gradation of technology as well as skill development. Based on the recommendations of the Commission, some steps were taken. Some of them are:

- ❍ 85 items reserved for exclusive manufacture in the SSI sector were de-reserved in October 2004. After this provision, the total number of reserved items stood at 605.
- ❍ To facilitate technology up-gradation and enhancing competitiveness, the investment limit (in plant and machinery) has been raised in October 2004, from Rs. 1 crore to Rs. 5 crore, in respect of 7 items of sports goods, reserved for manufacture in the small scale sector

- ❍ The Small and Medium Enterprises (SME) Fund of Rs. 10,000 crore was operationalised by the SIDBI since April 2004. Eighty per cent of the lending from this fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR of the SIDBI.
- ❍ The Reserve Bank of India enhanced the composite loan limit for the SSI sector upto Rs. 1 crore from the existing norm of Rs. 50 lakh.
- ❍ A new "Promotional Package for small enterprises" is being formulated. This would include measures to provide adequate credit, incentives for technology upgradation, infrastructural and marketing facilities, etc.



CHECK YOUR PROGRESS

Q 7: State whether the following statement is True or False :

Shortage of raw materials is one of the major problems of the SSIs.

Q 8: Fill in the blank :

Technology Bureau for Small Enterprises has been jointly set up by SIDBI and .....

Q 9: Why were the Tool Room Training Centres set up by SIDO?

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9.7 LET US SUM UP

- The definition for small-scale industrial undertakings has changed over time. Initially they were classified into two categories- those using labour power with less than 50 employees and those higher than that.
- Small and Medium Enterprises, or SME, form the large majority of industrial and service units across the world.
- The growth of the SME sector in the last ten years has been more than the growth of the industrial sector.