

## Small is beautiful

The move to dereserve the SSI sector is fraught with dangerous consequences, says **Uttam Gupta**

**T**HE Union minister of state for industries has recently announced the government's decision to increase equity stake of industrial houses, foreign companies and the NRIs in the SSI sector from existing 24 to 49 per cent. The implications need to be carefully assessed, keeping in view the fact that the SSIs account for about 35 per cent in the total manufacturing output and an equivalent contribution in the total exports, besides being the single largest provider of employment.

The purported justification is to enable infusion of fresh capital for renovating plant and machinery and other assets and to upgrade technology. In other words, to make the SSI sector cost competitive. The need for this is undisputed. Indeed, recent recommendations like raising the investment limit from existing Rs 60 lakh to Rs 3 crores, setting up of a venture capital fund and a technology fund are steps in that direction.

The government wants the medium and the big industries to play the role of a "non-interfering partner". If that be so, why is it agreeing to a substantial hike in the equity which would defeat the very objective. Having acquired a controlling stake, the medium and the big will start throwing their weight. In comparison to the huge sums involved in raising stakes in another big company, the financial stake needed for achieving the same in a SSI unit is just a piffling. With meagre financial commitment, it can be anybody's guess as to how much interest the former will take in the well-being of the latter. Even if the unit turns sick, the proposed dispensation seeks to distance the big from the consequential liabilities.

The government's contemplated move to dereserve the SSI sector is 'fraught' with even more dangerous consequences. If implemented, this is the surest way to exterminate the lakhs of SSI units, throw millions of workers out of jobs and has the potential of triggering off unprecedented social and economic upheavals. Besides, the country's exports and overall industrial growth prospects will also be seriously jeopardised.

These threats are not unreal. For example, Swiss multinational Nestle recently announced plans to double its turnover, currently at about Rs

700 crore, every three years as part of its ten-year strategy. It plans to set up manufacturing facilities in areas like icecream and biscuits etc, products exclusively reserved for the SSI sector. Other global giants like Heinz, Kelloggs and Unilever are also contemplating forays into this sector. The dereservation bid is bound to accelerate these trends.

The case against continued reservation for the SSI sector is founded on the extreme perception that the only way to make an enterprise cost competitive is to have a large size and modern plant. There are inherent

in higher purchasing power and consequently, demand for a wide range of industrial goods.

Another basic question we must ask is whether manufacture of items like biscuits or icecream at all require use of the so-called modern technology? These items can be made using fairly simple manufacturing processes, with focus being on labour as the main input. The essential requirement is that the production process should be carried out in hygienic conditions, and that the input purchase and product delivery systems are fairly well organised. For ensuring all this,

investment caused by the highly inefficient and costly industrial structure that this strategy has led to. Even in the case of foreign companies, their obligation to export a specified percentage of production has remained largely on paper. Ultimately these companies end up selling their products solely within India only.

From this angle also, there is absolutely no basis for changing the existing policy dispensation. On the contrary, with more and more opportunities opening up in the wake of a liberalised trading regime, there is a strong case for not only strengthening and expanding the existing units in the small scale sector but also setting up more as that would help generate additional employment opportunities.

Let us not get carried away by the stereotyped notions of modern technology, scale of operations and efficiency. These have legitimacy in areas like power, telecommunication, fertilisers, capital goods sector and a whole range of high tech industries. But in sectors like bread, biscuits, icecream, leather etc, there is need to be pragmatic. Given the huge reservoir of unemployed work force and the unemployment level increasing in geometric proportions, small scale units hold out potential for future growth and consequently absorption of labour.

The belief that the policy of reservation goes against the spirit of competition is unfounded. Pitting the strong against the inherently weak demeans the very concept of competition which rests on the principle of a level playing field. It also needs to be recognised that there is enormous scope for competition amongst the small, and it is precisely this which needs to be encouraged by establishing appropriate regulatory and monitoring mechanisms.

The government should, therefore, not only reconsider the decision to increase the equity holding of large and medium enterprises, but also desist from the move to dereserve the small scale sector. Contrarily, its endeavour should be to enable the SSI units survive and grow to subserve the overall socio-economic goals. The industrial houses and foreign companies can play a supplementary role by providing marketing, financing and infrastructural support, including support for development of skills through manpower training.

dangers in this oversimplified and stereotyped approach, particularly for food related industries.

Consider a SSI unit producing 'X' number of icecreams per day vis-a-vis a big unit with 100 times the capacity. Apparently, there is a big efficiency gap. But, what difference does it make to the national economy? We are not talking of a power plant or a fertiliser factory where, if the PLF/capacity utilisation is low, the entire economy will suffer.

In the case of icecream or biscuits, even if ten small units produce output equivalent to that of one big unit, the national economy is not going to be affected any way. On the contrary, it will only gain as the former will provide far more employment, result

it is not at all necessary to dereserve the small scale sector.

A point is often made that the policy of reservation acts as a bottleneck in promoting exports. This is a myth. The informal sector, particularly the SSI units, contributes the predominant share of India's export earnings. The expectation that more could be done should, in no way, diminish the importance of what has already been achieved.

The record of the big business houses on this front is far from encouraging. It may well be that they have saved foreign exchange by developing import substitution industries, but, the same has to be weighed against the loss of consumer welfare and adverse effect on savings and

