PROSPECTS OF SMALL SCALE INDUSTRIES

-**Dr. Nalla Bala Kalyan**

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CHAPTER
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By

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CONTENTS

1. INTRODUCTION

Small scale industries are a vital constituent of India's industrial sector. It contributes significantly to India's Gross Domestic Product (GDP) and export earnings besides meeting the social objectives including that of providing employment opportunity to millions of people across the country. The development of Small and medium scale industries are: increase in the supply of manufactured goods, promotion of capital formation, the development of indigenous entrepreneurial talents and skills and the creation of employment opportunities. Small scale industries encompass vast scope covering activities like manufacturing, servicing, financing, construction, infrastructure etc. In view of the Government of India ever increasing importance given to the small scale industries they need to be set up in the years to come. By contributing its increasing share to the national production, employment and exports, small scale industries also contribute to the economic development of the country. MSMEs area major employment provider and donor to GDP, they are burdened with the responsibility of providing employment while at the same time experiencing slow moving growth because of dividing agriculture sector and Globalization. Small industry in India has been confronted with an increasingly competitive environment due to: (1) Liberalization of the investment regime in the 1990s; favoring Foreign Direct Investment (FDI); (2) The formation of the World Trade Organization (WTO) in 1995, forcing its member countries (Including in India) to drastically scale down quantitative and non quantitative restrictions on imports, and (3) Domestic economic reforms.

Small scale industries have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi urban and backward areas. The Government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal ministry for formulation of policies and programmes and schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India. The Ministry of SSI and ARI (Agro and Rural Industries) was bifurcated into two separate ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September 2001.

The role of the Ministry of Small Scale Industries is mainly to assist the states in their efforts to promote growth and development of the Small Scale Industries (SSIs) to enhance their competitiveness and to generate additional employment opportunities.

In addition, the Ministry attempts to address issues of country-wide common concerns and also undertakes advocacy on behalf of the Small Scale Industries (SSI). Indian small scale industries play an imperative role in the economic expansion of the country and have vast approaching for employment generation. Increasing Small scale sector also results in decentralized industrial development, better distribution of wealth and investment and entrepreunial talent. The Government has initiated several policies for the growth and development of small scale industries. The MSMEs in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural industries and Ministry of SSI have been merged into a single Ministry namely, Ministry of Micro, Small and Medium Enterprises. The Small scale sector has played a greater role in the socio economic development of the country during the past fifty years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP) employment generation and exports.

1.1 Definition

The concept and definition of small industries has changed over years with the changing circumstances and pressing problems of the Indian Economy. Various Institutions, Government agencies and individuals have defined small industrial units in different ways.

Small Industrial Units 1990

According to Industrial Policy Statement 1990, the investment ceiling in plant and machinery for small industrial units fixed in 1985 has been raised from Rs.35 lakhs to Rs.60 lakhs and correspondingly for ancillary units from Rs.45 lakhs to Rs.75 lakhs. The investment for tiny units has been increased from Rs. 2 lakhs to Rs 5 lakhs. According to the modified definition an ancillary unit is one, which sells not less than 50% of its manufactures to more industrial units.

The union budget 2002-2003

The Union Finance Minister announced the change in the definition of small Scale industries it has included the enhancement of small industries investment ceiling for specified Hosiery Hand tool items.

The investment limit plant and machinery with regard to industrial under takings manufacturing specified items in the hosiery and hand tool was enhanced from Rs.1 crore to Rs. 5 crores.

1.2 Micro, Small and Medium Enterprises Development Act, 2006

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMEs) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the ratification of MSMED Act 2006, the paradigm shift has included the services sector in the definition of micro, small and medium enterprises, apart from extending the scope to medium enterprises. The MSMEs Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

Definition of Micro, Small and Medium Enterprises

The Act has defined medium enterprises for the first time. The enterprises are further classified into Micro, Small and Medium categories. The investment limits of these enterprises are as follows:

I. Manufacturing Enterprises:

i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs.25 lakh;

ii) A small enterprise is an enterprise where investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore: and

iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

II. Service Enterprises:

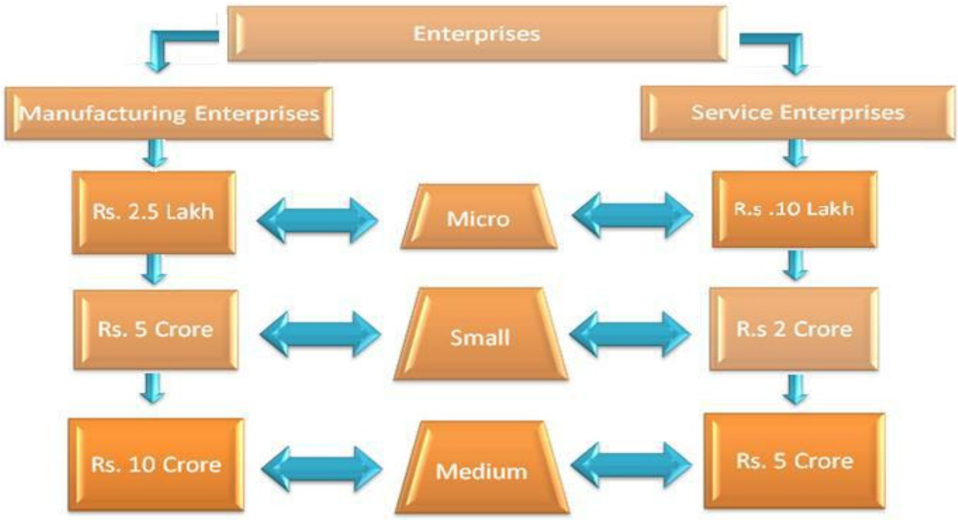
i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakh;

ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore:

iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

(The investment limits of these enterprises are as shown in figure 1)

Figure 1
Classifications of Micro, Small and Medium Enterprises



(As per Micro, Small and Medium Enterprises Development Act, 2006)

The Micro, Small and Medium Enterprises constitute the overall industrial sector of the country.

2. Importance of Small-Scale Industry

Employment of small-scale industry

The small-scale industries are labour-intensive and they can provide more employment per unit of capital. The employment generating capacity of Small-scale sector is eight times that large-scale sector. In cottage and household industries, with given investment, employment possibilities would be ten or fifteen times greater in comparison with corresponding factory industries. In an economy, characterised by abundant labour supply and scarce capital, the Small-scale industry assumes special significance.

Use of local raw material

The Small scale units make use of locally available raw materials. Most developing countries are rich in certain agricultural, forests and mineral resources. Small-scale industries can be based on the processing of locally produced raw materials. These industries not only economize the utilization of resources but also help conserve foreign exchange by producing and exporting goods processed by locally available resources.

Mobilization of capital

Small-scale industries are helpful in mobilizing capital. In an agrarian economy, people have a tendency in keeping their money idle rather than investing in large-scale industries. Since small-scale industries are located close to areas where people stay, mobilization of rural savings is easy. It mobilizes capital from lower middle class section to invest in productive activities.

Developing entrepreneur ship

The growth of an entrepreneurial class requires an environment. Small enterprises provide the environment which encourages a growing network of feeder and complementary relations among plants and firms. It is in this environment the latent talent of entrepreneurs can be developed. Thus, the latent resources of entrepreneurship can be tapped by the growth of small enterprise only.

Equitable distribution of wealth

The growth of large enterprises results in concentration of economic power in the hands of a few people. The income and wealth, as a result, is distributed unequally in the country. On the other hand, small industries are either proprietary or partnership

concerns or the ownership is widely dispersed in rural and backward areas. So, the income generated in large number of small units is dispersed widely. Thus, the growth of small-scale industry ensures a more equitable distribution of income and wealth.

Efficient use of productive factors

Small enterprises use productive factors more efficiently this results in lower capital-output ratios and higher labour capital ratios. A rupee worth of fixed assets produces almost seven times the output in small-scale sector as compared to large industries. Further, the value added per unit of capital is higher in small units. It has been estimated that every one rupee of investment in fixed assets in this sector produces 4.6 rupee worth of goods.

Promotion of export

The contribution of small-scale sector in export promotion is significant. A feature has been rapid growth in the export of non-traditional items. The small-scale sector accounts for 60,000 crores exports annually which is 40% of total exports in India.

Innovation

Small industries have relatively higher necessity and capacity to innovate. The national science foundation, an organization in United States of America (U.S.A) found that small enterprises produce four times more innovation per research dollar than do big companies. Increased number of small firms is expected to result in more innovations and make the Indian industry compete in international markets.

3. Policy Initiatives in Micro Small and Medium Enterprises

India has a long history of conceiving policies of protecting the small industrial units. Since Independence, several policy initiatives and measures have accordingly been taken by the Government during the year to enable the micro, small and medium enterprises to enhance their competitive strength, address the challenges of competition and avail themselves of the benefits of the global market. The main objective of Industrial Policy Resolutions was to promote industrial growth and also determine the pattern of state assistance to small industrial units for fulfilling socio-economic objectives. Industrial development plays a crucial role in India's development strategy.

The progress of industrialization over the last fifty years has been a striking feature of the Indian economic development. Industrial policies lay stress on the strategy of development. In increasing industrial production, diversifying the base of industrial production as well as increasing employment opportunities, industries have been playing important role in India. The promotion of industries has been regarded as an important element of the development strategy underlying Five Year plans. The industrial policy indicates the respective roles of the public, private, joint and cooperative sectors and also of the large, medium and small scale sector and underlines the national priorities. The advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both Government and planners earmarked a particular position of Micro, Small and Medium Enterprises in the Indian economy.

Government's objectives and intentions towards industry including Small scale industry were announced through Industrial Policy Resolutions (IPRs) in 1948, 1956,1977,1980,1990 and 1991 respectively.

Industrial Policy Resolution – 1991

The Government of India, for the first time, tabled the new Small enterprise policy titled "Policy measures for promoting and strengthening and supplementing small, tiny and village enterprises in the Parliament on August 6, 1991. In 1991", the Government of India announced a separate policy for the small and tiny sectors. This policy statement widened the investment limit for the tiny sector, removed the vocational restrictions and recognized business and industry related services as small industrial units on par with the tiny units. The manufacture of items earlier banned in the small industrial units was removed; the small industrial units which employ less than 50 workers with power and 100 workers without power were exempted from licensing. The Small and Ancillary Industries were exempted from licensing for all articles of manufacture, which were not covered by the public sector.

The investment of 0.5 million and other location conditions were withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location, were recognized as small industrial units. A new scheme of integrated infrastructural development for small industrial units was provided with the participation of State Government and Financial Institutions.

The New Industrial Policy – 1999

The emerging economic scenario in the changed Liberalized and competitive economic environment necessitated structural and fundamental changes in the policy framework put in place for the development of Small Scale Industries (SSI).

The main objective of the Industrial Policy, 1999 was to create congenial environment for the small industrial units to cope with the emerging challenges of Globalization. To focus fully on the promotion and development of small industrial units, a separate Ministry of Small Industrial Units and Agro and Rural Industries was created the policy initiatives were.

1. The annual turnover limit for calculation of working capital limit for Small industrial units was raised to Rs. 5 crores from Rs. 4 crores. The maximum ceiling limit for Composite Loan Scheme was increased to Rs. 5 lakhs.
2. To increase flow of credit to small industrial units, a new credit Insurance scheme was launched.

3. Small Industrial units producing goods in rural areas are allowed excise exemption on third party branded goods.
4. The definition of Small and ancillary industrial units was revised by reducing investment limit in plant and machinery to Rs. 1 crore from Rs. 3 crores.
5. Special package for the development of small and village industries in North Eastern regions were announced. The industrial units in the North Eastern Region were given exemption from excise duty for 10 years from the date of commencement of production; and
6. Special emphasis was given for the units which have high export potential.

Through the Ministry, Government has brought about changes in policies and development support that have enabled rapid and substantial development of MSMEs in India and given them a competitive edge over their Global countries. Some programmes and policies have been outlined here. The facilities can be categorized into three, Policy initiatives, and Institutional support and credit dispensation.

4. Policy Initiatives

Small scale industries constitute a key link in the process of socio economic transformations of underdevelopment social structures. The Ministry of MSMEs and other Government Departments are still working hard to pull the sector out of the recession and overcome some inherent problems.

MSMEs to promote the development of micro, small and medium enterprises in the country saw success this year. For accelerating the flow of credit to MSMEs, the RBI and Government have taken the following pro active initiatives.

- Reserve Bank of India (RBI) incorporated the definition of micro, small and medium enterprises, as defined, in the MSME Development Act into the revised guidelines on priority sector issued to SCBs on April 30, 2007.

- Based on the Finance Minister"s policy package announced in August 2005, public sector banks were advised to fix their own targets for funding MSEs and achieve a minimum 20% year-on-year growth in credit to MSEs and double the credit flow from Rs. 67,600 crore in 2004-05 to Rs. 1,35,200 crore in 2009-10.

- Public sector banks should operatinalise at least one specialized SME branch in every district and center having cluster of SME units to ensure uninterrupted credit flow to this sector.

- In August 2009, RBI advised banks not to insist on collateral security for loans up to Rs. 500,000 to MSE sector.

- Union budget 2008-09announced MSE Refinance Fund and MSE Risk Capital Fund, which were established with SIDBI in June 2008. SCBs failing to achieve their priority sector lending targets would contribute to these Funds.

- Union Budget 2009-10 announced a special fund of Rs.4000 crore to SIDBI to facilitate the credit flow at reasonable rates to MSE sector. The fund will incentivize banks and SFCs to lend to MSEs by refinancing 50% of incremental lending to MSE during 2008-09.

- Small Scale Industries (SSI) sector is one of the three well-defined components of the priority sector credit. Since SSI sector has not stipulated any lending target banks are required to fix self-set credit target for growth.

- Government has now redefined the Foreign Direct Investment (FDI) cap on MSME sector, according to which the 24% ceiling for ownership of SME units by bigger domestic firms or foreign investors has been removed. Higher Foreign Direct Investment (FDI) will be allowed according to the sector-wise cap stipulated in the FDI policy.

- A policy package for stepping up credit to Small and medium enterprises was announced in the Parliament on August 10, 2005 in order to achieve a minimum 20% year-on-year growth in credit to the MSME sector by the public sector banks. The objective is to double the flow of credit to the MSME sector by 2009-10, i.e. within a period of 5 years.

5. Financial support for SSI

Credit is the prime input for continued growth of SSI and its recruitment for meeting fixed and working capital needs possess the leading problems. Credit provided for creation of fixed assets like land, building, plant and equipment is called long term credit. Credit card scheme has been provided to SSI where they can credit up to Rs.10 lakhs. Apart from this, credit facilities up to maximum of Rs.25 lakhs are providing through credit guarantee fund trust in association with SIDBI (Small Industries Development Bank of India) and Govt. of India

SSI finance and Credit policies input from the ground

The over shifting concerns of the MSME sector remains that of assess the sufficient credit. The participants reported four key issues with regards to MSME finance and credit policies.

1. Perceived poor quality of service.
2. High cost of credit to MSME sector in comparison to their large counter parts.
3. The lack of simplicity (in fixing charges, credit rating process, disposal of loan application).
4. Insufficiency of domain knowledge (of sectors or products) among branch managers with enhances their risk perception.

Credit Guarantee Scheme:

The credit conveniences which are appropriate to be covered under the scheme or both term loans and working capital facilities up to Rs.100 lakhs (Rs. 1.0 Crore) per borrowing unit. The loan is extended without any guarantee security or third party guarantee, to a new or existing micro or small enterprises. The loans are guaranteed by credit guarantee fund trust for micro small enterprises.

Guarantees

Category	Maximum extent of Guarantee where credit facility is		
	Up to Rs. 5 lakhs	Above Rs.5 lakhs Up to Rs. 50 lakhs	Above Rs. 50 lakhs Upto Rs. 100 lakhs
Micro Enterprises	85% of the amount in default subject to a maximum of Rs. 4.25 lakhs	75% / Rs. 37.50 lakhs	Rs. 37.5 lakhs plus 50% of amount in default above Rs. 50 lakhs subject to overall ceiling of Rs. 62.50 lakhs.
Women Entrepreneurs/units located in north-east region (include Sikkim) other than credit facility up to Rs. 5 lakhs to micro enterprises.	80% of the amount in default subject to a maximum of Rs. 40 lakhs.		Rs. 50 lakhs plus 50% of amount in default above Rs. 50 lakhs subject to overall ceiling.
All other categories of borrowers	75% / Rs. 37.50 lakhs		Rs. 37.50 lakhs plus 50% of amount in default above Rs. 50 lakhs subject to overall ceiling of Rs. 62.50 lakhs.

In case of default by the borrowing units, the trust which stands assurance up to 75% (or higher as the case may be) of the loan amount, pays off the agreed amount to the lending institution. The guarantee covers is higher at 85% for more exposed sectors like micro enterprises with a loan limit of Rs. 5.0 lakhs

Schemes for small industrial units:

In the World Trade Organization (WTO) surroundings it has become very clear that small industrial units have to be cost spirited and produce quality goods to remain in business. The ministry of SSI projected to help small industrial units by giving incentives for taking ISO-9000 certification, introduce a Credit Linked Capital Subsidy Schemes (CLCSS),Technology up gradation scheme and Credit Guarantee fund trust (TGSCGPT),for small industries.

1. Laghu Udyami Credit Card Scheme

Laghu Udyami Credit Card Schemes (LUCCS), introduce in November 2001, has been implemented by the banks for on condition that borrower friendly credit facilities to small business, retail trades, artisans, small entrepreneurs, professional and other self employed persons including those in the tiny sector (Laghu- Udyoug Sam Char 2006). Credit limited per enterprise under the scheme has been increased from Rs.2 lacks to Rs.10 lacks for borrowes with satisfactory record .

2. SSI advances guaranteed by Credit guarantee fund trust for small industries (CGTSI)

Credit Guarantee Trust for Small Industries (CGTSI), A trust setup jointly by the Govt. of India and small industries development bank of India is administering the credit guarantee fund scheme for small industries(CGFSSI), launched by Government of India to cover credit facilities extended small scale industries by eligible lending institutions.

The guarantee cover under CGFSSI is available for credit facilities extended by eligible lending institutions, irrespective of a single borrower, not exceeding Rs.25 lakhs by way of term loan and working capital facilities on (or) after entering into an agreement with the trust. To the small scale industries units including information, technology and software industries without any collateral security and (or) third party guarantees. The guarantee cover is also extended to sick units, the cover being about 75% to 85% and limit maximum of Rs. 65 lakhs. As on 31st March, 2007 proposals from entrepreneurs and small businesses, guaranteeing term loans and working capital facilities were 70,000 and 53,708 in 2008-09 with cover of Rs. 2200 crores. However as on February, 2010, 2, 77, 983 proposals with guarantee covers of Rs. 10, 55,168 lakh were approved encouraging response. The trust provides guarantee covers of up to 75% of amount in default of the credit facility extended by the lending institution to an eligible borrower, subject to a maximum cover of Rs. 18.75 lakhs per borrower.

3. Swaroggar Credit Card Scheme

Swaroggar Credit Card Scheme (SCCS) has been launched since 15th august 2003 and banks are providing working capital to self employment people to the extent of Rs.25000 lakhs per card. Credit flow from the formal system to small borrowers, especially persons of small means, has not been adequate which has been established by various studies, Various credit delivery innovation in the firm of SHG-bank linkage programme for making financial services available to the unfortunate, Kisan Credit Card Scheme (KCCS) for meeting the production credit needs of the farmers for small industrial sector have been introduced. However, tiny and cottage village industries sector and self employed persons were left out from credit card schemes.

4. Credit Linked Capital Subsidy Schemes (CLCSS)

The scheme was started in October, 2000 for a period 5 years for encouraging the small industrial units for technology up gradation by installing new machinery and equipment for increasing productivity, quality up gradation, machinery for packaging or for environmental protection .Initially 13 items were shortlisted under this scheme, providing 15 percent upfront capital subsidy with effect from the 29.09.2005 to Micro, Small and Medium Enterprises. A provision for giving subsidy of Rs.600 crores was made under this scheme. Recently the list of items has been improved to 30, so that more number of units can become in principle advanced.

6. Problems of Small scale industries

In this Chapter, an effort has been made to examine the problems of sample micro, small and medium enterprises. The various policy measures taken by the Government to foster the growth of MSMEs have resulted in enormous growth of MSMEs. However, many problems of production, distribution, distribution and finance still continue to afflict the MSMEs. Recognizing the imperative role of the MSMEs in the national economy, the Central and State Governments have taken active steps to promote and foster their growth. These measures have been particularly effective but many of the problems of production, distribution and finance still continue to affect the MSME sector. While some of them are more or less common to a wide range of small industries, others have particular relevance to a group of small industries and to industries situated in rural and backward areas. The problems of MSMEs are divided into two groups external and internal. As is obvious, external problems are those which result from factors beyond the control of the industrialist like the availability of power and other infrastructure facilities required for the smooth running of Small-Scale Industries, while internal problems are those which are not influenced by external forces. The internal problems affecting the MSMEs relate to organization, structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management etc. The following Table 1 explains Internal Vs External Problems of MSMEs.

Table 1
Problems of MSMES: Internal Vs External

INTERNAL	EXTERNAL
a. Poor Project implementation	a. Finance
b. Poor Production	Capital
c. Quality	Working capital
d. Capacity Utilization	Long term Funds
e. Inadequate Finance	Recovery
f. Capacity Utilization	b. Marketing
g. Inadequate training skills	c. Raw Materials
h. Lack of strategies	e. Technology
i. Labour Problems	f. Recoveries
	g. Taxation

The major problems of MSMEs are given below;

1. Finance

Inadequate finance is the major problem for MSMEs. Since most of the MSMEs are proprietary concern or partnership firms, their internal resources are small. The credit provided by the various institutional agencies such as banks, State Financial Corporation (SFCs) and Small Industrial Development Bank of India (SIDBI) are inadequate to meet the requirements of small units. The initial investment of small units comes from relatives, friends, and non-banking and non-government sector. The institutional agencies are still reluctant to advance money to small industries as they are unable to offer security guarantee required by them. The shortage of funds makes it difficult to install modern machinery and maintain well organized and fully equipped rectories. They are unable to buy and store required raw materials or stock of finished goods or have their own sales organization. Despite the liberal credit provided by the institutional agencies, the problem of finance still exists in small-scale sector.

The different problems of finance in micro, small and medium enterprises are:

- Inadequacy of working capital and fixed capital.
- Lack of collateral security/ guarantor for raising loans.
- Unorganized finance sectors offering loans at higher rate of interest.
- Inadequate loans financed by organized sector.
- High payment installments or short repayment period for loans.
- Elaborate procedure and forms required to be filled by entrepreneurs for obtaining loans and undue delay.

2. Marketing

Marketing is one of the major stumbling blocks for Small-Scale Industries. The many problems which they face in marketing their products are enumerated as follows:

- Poor designing
- Poor quality
- Lack of quality control
- Lack of precision
- Poor finish
- Poor bargaining power
- Lack of service after sales
- Scale of production
- Brand preferences
- Distribution contacts
- Lack of knowledge of marketing
- Competition
- Ignorance of potential markets

- Unfamiliarity with export activities—procedures and market know-how and
- Financial weakness.

Because of weak financial base, a Small industrialist cannot afford to spend heavily on marketing his products. A rare exception is the pharmaceutical industry, in which the gap between the manufacturing cost and the selling price is very large. This is a special situation, in which marketing techniques are different, and therefore the cost of marketing is very high, particularly the marketing cost of those drugs for which there is stiff competition. The small industrialists in this line have to follow this trend in order to survive in the global market. In the absence of a marketing channel of their own, many small units sell their product to large selling houses. In marketing their products, the MSMEs have to face competition from other small-scale units and also from large industries. The small units do not possess their own marketing organization. They do not have the resources and expertise to market organization. They do not have the resources and expertise to market their products effectively. Further, their products are often not standardized and of variable quality.

Therefore, the small industries suffer from a comparative disadvantage vis-à-vis large-scale units. Financial constraints compel the small units to sell their products at un-remunerative prices. Many small units sell their products to large selling houses at low prices. The National Small Industries Corporation and Small Industries Development Corporation assist the small industries to get Government orders. The trade fair authority and the state trading corporation help Small-Scale Industries market their products and locating export market. However, these arrangements are inadequate.

3. Raw Materials

In view of the rising tempo of industrial activity, the shortage of right type of raw material at standard prices has affected the entire industrial sector. Because of their smallness and weak financial position, Small-Scale Industries have to utilize the services of middlemen to get raw materials on credit. Such an arrangement, however, results in higher costs and is particularly disadvantageous when raw materials are imported, for the profit margins of middlemen are rather high. Their meager resources induce small industrialists to use cheap and inferior materials, which naturally affect the quality of their finished products. Moreover, the irregular supply of certain raw materials adversely affects their production programmes. The raw material problem has been extremely acute for steel-based industries like bicycles and their spare parts, sewing machines and spare parts, automobile leaf springs, agricultural implements etc.

Some of them are chronically in short supply; some are very scarce at times and abundant at others; and there are great price variations. Manufacturers and suppliers very frequently create artificial scarcities and rig up prices. Even the Government is at fault sometimes deliberately because it is politically motivated and often throws the trade into complete confusion by frequent changes in policy, especially in regard to controls. Quite often, the announced objective of the control policy is defeated by unscrupulous elements with the connivance of bureaucrats, who exploit the situation at the cost of the buyers.

The MSMEs in the rubber industry are facing serious difficulties because of the imbalance between the demand for and the supply of raw materials, they lead to unduly high prices. The availability of raw materials is a great problem for Small-scale units. These units use either local raw materials, or imported raw materials. For the small units making use of local raw materials, the problem is not a serious one. The industries that use imported raw materials face acute raw material problem.

The shortage of right type of raw materials at standard price affects the capacity utilization and production programme. The efforts taken by the Government to ensure adequate supply of raw materials has met with partial success. The raw material supplied by the government is hardly enough to meet 30% to 40% of the installed capacity of the SSI units.

As a result, the small industries have to resort to open market purchase at high prices which in turn increases the cost of production and adversely affects the profit.

The raw material problem has been extremely acute for steel-based industries. Industries are forced to buy these materials in black market at prohibitive prices which upset their cost calculations. There is great variation in the quality of raw materials and it affects on the quality of raw materials and it affects on the quality of final product. Generally, the industries are faced with the problems of substandard raw materials supplied by dealers. There are also great delays in supply of raw materials and because of this entrepreneurs have to keep their inventory level high. The MSMEs in the rubber industry are also facing serious problems because of imbalance between demand and supply of raw materials. Supply of raw materials should be streamlined at reasonable prices and quality should be maintained if the small industries are to compete in the free market.

4. Labour

Handling labour, which is a major contributor to industrial production, is one of the most difficult tasks of the industrialist because of the human element involved in it. One has to keep abreast of the maze of labour laws, which keep changing from time to time. Labour today is fully aware of its rights. It has, therefore, to be handled with patience and understanding. Unfortunately, trade unionists politically exploit the problems of labour, and, at times, even create a problem where there was none before. To protect their vested interests, politicians often prevent a settlement of a dispute between labour and employers, and thus work against the interests of both. It is very important, therefore, to evolve a code of conduct for trade unionists to protect the interests of labour as well as of employers; this will add to the general prosperity and well-being of both.

5. Technology

The growth of MSMEs in India has not been very satisfactory despite the various provisions for their promotion in the Industrial Policy of the country. One of the major handicaps of the MSMEs has been the absence of the latest technology, which alone can ensure quality and high rate of productivity.

Most of the small-scale units use only obsolete and outdated technology and old machinery and equipment. Adoption of latest technology alone can ensure good quality and higher productivity. Due to limited capital, the small industries find it difficult to modernize their plant and machinery.

As a result, the cost of production tends to be higher and quality of products lower as compared to the products of large industries. The small industries are financially weak to undertake research and development activities.

The small industrialist, therefore, should keep himself abreast of developments in technology, so as to:

- Remain in the market;
- Improve the quality of his products;
- Lower the cost of production
- Pass on the benefits to the consumer.

Unless he takes to this policy, he may soon find himself squeezed out of business. It is even advisable for the small entrepreneur to give a lead in research and development, which may not always be very expensive. Even without the facility of a sophisticated laboratory and gadgets, by using his intellectual capabilities and utilizing the knowledge gained by others, it is possible for him to stumble upon some new ideas, provided he is development-oriented and is capable of innovation.

7. Recoveries

One of the most difficult problems of the small industrialist today is recoveries from sales. It is an established practice for buyers to expect credit from sellers. This practice is forced upon the small industrialist by the larger ones. Initially, credit was available for a month or two; but with a very tight money market, a situation has developed in which buyers do not pay their suppliers for over 12 months, and get away with it.

The financial assistance availed of by the small unit with great difficulty from a bank is taken advantage of by its customers, who do not pay their dues in time. The bank may, if at all, extend further assistance: but this assistance, after all, is not limitless. The New Bill Market Scheme of the Reserve Bank of India has not touched this problem. The only way out of this situation is for the Central Government to introduce measures to curb the practice and save the small industrialist.

8. Underutilization of Capacity

The small industries have an inherent problem of underutilization of capacity due to two reasons: (i) Frequent power cuts and (ii) Inability to go for alternatives like generators and installation of thermal units. On an average, 40% to 50% of the capacity is not utilized in small units.

9. Institutional Constraints

The entrepreneurs face many constraints in availing themselves of the various concessions and facilities extended by various financial institutions and Government agencies. The small entrepreneurs have to approach several agencies to get their requirements. The local bureaucracy often makes entrepreneurs run from pillar to post to make qualify for various credits and essential raw materials of competitive prices, as a result, they are not able to get the assistance in time.

10. Lack of access to Relevant Information

An entrepreneur starting a business requires access to reliable information on various aspects of business such as regulatory issues, statutory compliances, and infrastructure and so on. The lack of readily available information compels new entrepreneurs to employ intermediaries to advise them on essential aspects of starting an industry thereby, incurring additional costs.

11. Difficulty in Starting and Operating Business

Difficulty and delays in meeting various government requirements such as registration, obtaining licenses and registering property still confront entrepreneurs. The World Bank report, 2007 doing business in South Asia says that, it takes 35 days in Mumbai and 52 days in New Delhi to start a business in India. The official cost of starting a business is high and the process is quite complex.

12. Other Problems

The other problems of MSMEs include certain bottlenecks before launching the enterprises. They make look simple but, in fact, need attention of the entrepreneurs, Government, and promoting agencies. They can be broadly given under the following heads.

High Costs:

The cost per unit produced increases because of higher power costs and local taxes etc. It becomes very difficult to compete with other products offered at low prices. Chinese products have already been posing a severe threat to Indian products.

Project Report preparation

Very often small enterprises cannot prepare a techno economic feasibility study and project report on their own. They have to depend on management consultants who charge them heavily. Most of the time, such services may be out of the entrepreneurs reach any way. This may result in erroneous planning and execution of the project.

Obtain licenses

Obtaining licenses from the District industries centre or the authority concerned is an elaborate process. This involves a lot of coordination, maneuvering and follow up. The procedural formalities keep changing; one has to struggle hard to get a license from government organizations known as nepotism and bureaucracy.

Sickness and High mortality

Most small units tend to go sick or even close down for various reasons. Any industrial unit may go sick if it is not properly managed or monitored. Periodical monitoring is essential and the small entrepreneurs cannot entrust this task to anybody else. He himself has to keep track of the progress. The main problem is that most of the entrepreneurs do not know how to monitor the progress and seldom involve themselves in management of the small unit. This leads to high mortality among small units.

7. Prospects of Small Scale Industries Broad Categories

1. Agro and allied based units:

This group includes the units engaged in flour milling, rice milling, groundnut decorticating, groundnut oil extracting, oil crushing, making mango pulp, and fruit canning, and rice hulling, tamarind decorticating and making starch.

2. Chemical based units:

Laboratory Chemicals, Industrial Alcohol, polythene bags manufacturing, rigid PVC pipes, molded plastic products, writing ink, chicory soaps, and the other chemical units are grouped under this category.

3. Animal husbandry:

This group includes dairy farming, poultry units, hatcheries, and cattle, poultry feed manufacturing, etc.

4. Engineering based units:

Because of their small numbers both engineering and electronic units are included in this group. Units like castings, making type writer spares, nails and bolts, making aluminum vessels, television assembling, steel rerolling, transformers, rewinding and making padlocks are included in this category.

5. Non –Metallic and Mineral based units:

Units engaged in granite cutting and polishing, making cement poles, Flyash Bricks, Cement Bricks, Pulvarisers of Barytes, Slab cutting, Polishing powder, Solids Hollow, Burnt line, Granite cutting, Table moulded bricks, Road metal, Polishing Slabs, Mosaic Tiles, Ceramic tiles, Metal crushing and Mineral pulvarisers are clubbed under this category.

6. Paper and Printing Based Units:

Paper coins and tubs, offset printing flexo graphic printing, Label printing.

7. Repairs and Service Based Units:

Automobile services, motor vehicle repair, web designing, hosting, computer assembling servicing etc

8. Textile Based Units:

Cotton cloth by power loom, Silk reeling units, Units making readymade garments, cotton ginning and pressing and monofilament yarn nets constitute this group.

9. Forest based:

Wooden furniture saw mills, corrugated cardboards, paper boards, beedi manufacturing etc are considered under forest industry.

10. Miscellaneous Units:

All those not included in the above groups are brought under this category. They include making shoe tags, leather foot wear, the servicing of motor vehicles, G.N. Decorticating, Tyre retreading etc.

8. Summary

A small scale unit is considered sick when it has accumulated losses equal to or exceeds 50% of its peak net worth in the immediately preceding five accounting years. The signs of sickness are discernable quite early in the form of decline in capacity utilization, shortage of liquidity, irregularity in maintaining bank accounts, delay in meeting statutory dues, etc. The persistence of these signals takes the form of symptoms like continuous shortage of liquid, funds worsening financial position, continuous tumble in share prices, frequent request to financial institutions for loans, etc. The various causes of industrial sickness are classified into external and internal causes. While small scale units fall prey to external factors like lack of infrastructure, lack of finance, problems of marketing, etc., large and medium scale units fall sick mainly due to internal factors like mismanagement. Whatever may be the causes of sickness, the main consequences of sickness in an economy have been locking up the country's financial resources, wastage of scarce capital assets, loss of production and increase in unemployment. Industrial sickness is, thus, the bane of an economy. Hence, it needs to be detected and cured. With the bulk of the modern small scale industry in India is a post-independence phenomenon the problems it faces are also peculiar to the rapidly changing economic scenario of the planning years. Most of the MSMEs established in India are confronted with the delay in supply of raw material, delay by bankers in sanctioning working capital and poor selection of entrepreneur.

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