Small and Medium Scale Enterprises (SMEs) play a very significant role in almost all countries of the world irrespective of their development stage. Developed countries like Japan, China, Malaysia, Taiwan, United States of America and United Kingdom have developed through the SMEs many aspects of business such as employment generation, export, tax, income, innovation, competitiveness. The recent wave of Globalization has influenced overall business of the world. The SMEs have prospered better under this wave of Globalization. Particularly in India, they have made a significant impact on income distribution, social stability, domestic resources utilization technique, structural and regional development, exports, employment and creation of a broad entrepreneurial base. Hence, the SMEs are rightly regarded as the backbone of modern Indian economy. With the advent of planned economy in 1951, and the subsequent industrial policy of the Government of India, both planners and the Government have earmarked for small and medium industries a special role in the economy.

The SMEs form the backbone of the Indian manufacturing sector and have become engines of economic growth in India. It is estimated that the SMEs account for almost 90% of the industrial units in India and 40% of value addition in the manufacturing sector. It is increasingly recognised that the SMEs play a crucial role in employment creation and income generation in the Asian Region. The SMEs can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is in the case of large enterprises. Their development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation. At the same time, the SMEs serve as a training ground for emerging entrepreneurs in some of the Asian region. The full potential of the SME sector has yet to be tapped as there are a number of constraints hampering its development.

In India, state and private enterprises co-exist. The Small and Medium Enterprises sector and business are left completely to private enterprises. Of late, development of the SMEs has become extremely important to achieve all round development in the country. Consequently, many SME opportunities are emerging in fields like electric goods and applications, medicine, engineering, agriculture,
communication, atomic energy, telecommunications, food technology, packing and the like. These opportunities have been increasing at rapidly. A robust and vibrant SME sector can derive benefits from the new opportunities in both public and private modes. In recent years both government and private agencies have initiated strategies and programmes for developing the SME skills among people. The SME sector produces a wide range of industrial products such as food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute, hemp & jute products, wood & wood products, furniture and fixtures, paper & paper products, printing publishing and allied industries, machinery, machines, apparatus, appliances and electrical machinery. SME sector also has a large number of service industries.

The small-scale industrial entrepreneurs, by and large, represent a stage in economic transition from traditional to modern technology. The variation in the transitional nature of this process is reflected in the diversity of small-scale industries. Most small-scale industries use simple skills and machinery. Besides playing an important role in the country's economic development, small enterprises because of their unique economic and organizational characteristics also play a social and political role in local employment creation, balanced resource utilization, income generation and in helping to promote change in a gradual and peaceful manner. Socio-economic factors affecting small-scale industrial entrepreneurs came to the forefront during the industrial revolution, with nations of entrepreneurial importance gaining favour by the mid-twentieth century. During the 1960's, the behaviour of the individual came to be highlighted as a major factor contributing to small-scale industrial entrepreneurship. Thus, the supply of small-scale entrepreneurs came to be recognized as critical to development of small-scale industries.

Definition of Small Scale Industry

The definition of small scale industry in India has undergone changes from time to time. The earliest definition was given by the Director General of Supply and Disposals. According to this definition "Small Scale Industries are those organized units, in terms of Factories Act, which do not ordinarily employ more than 100 persons without the use of power or 50 persons with the use of power and have capital assets not exceeding Rs.5 lakh". The later definitions, since 1959, laid
emphasis only on capital investment in fixed assets excluding land and buildings irrespective of the number of persons employed. A retrospective view of changing definitions till 1997 may be seen in the following table.

### Table No. 2.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Defining Authority</th>
<th>Small-Scale</th>
<th>Ancillary</th>
<th>Tiny</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>Small-Scale Industries</td>
<td>Rs.5.00 lakh</td>
<td>Rs.10.00 lakh</td>
<td>-</td>
</tr>
<tr>
<td>1966</td>
<td>Small-Scale Industries</td>
<td>Rs.7.5 lakh</td>
<td>Rs.10.00 lakh</td>
<td>-</td>
</tr>
<tr>
<td>1974</td>
<td>Industrial Policy</td>
<td>Rs.10.00 lakh</td>
<td>Rs.15.00 lakh</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>Industrial Policy</td>
<td>-</td>
<td>-</td>
<td>Rs.1.00 lakhs</td>
</tr>
<tr>
<td>1980</td>
<td>Industrial Policy</td>
<td>Rs.20.00 lakh</td>
<td>Rs.25.00 lakh</td>
<td>Rs.2.00 lakhs</td>
</tr>
<tr>
<td>1985</td>
<td>Industrial Policy</td>
<td>Rs.35.00 lakh</td>
<td>Rs.45.00 lakh</td>
<td>Rs.2.00 lakhs</td>
</tr>
<tr>
<td>1988</td>
<td>Budget, 198-89</td>
<td>-</td>
<td>-</td>
<td>Rs.2.50 lakhs</td>
</tr>
<tr>
<td>1991</td>
<td>SSI Policy Statement</td>
<td>Rs.60.00 lakhs</td>
<td>Rs.75.00 lakhs</td>
<td>Rs.5.00 lakhs</td>
</tr>
<tr>
<td>1997</td>
<td>Notification</td>
<td>Rs.300 lakhs</td>
<td>Rs.300 lakhs</td>
<td>Rs.25.00 lakhs</td>
</tr>
</tbody>
</table>

Source:


**Definition 1999**

Today, the small-scale sector covers within its domain a wide range of categories, such as small-scale industries, ancillary industries, tiny enterprises, women entrepreneurs’ enterprises, small-scale service and business enterprises (SSSBE), and cottage industries, etc. How each is defined is presented below:

A Small-Scale industrial Undertaking is “an industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or hire purchase does not exceed Rs.10 millions”. 

33
An Ancillary Industrial Undertaking is “an industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 percent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceeds Rs. 10 millions”.

Tiny Enterprises

“Investment limit in plant and machinery in respect of tiny enterprises is Rs.2.5 million irrespective of location of the unit’.

Women Entrepreneurs’ enterprise is “a Small Scale Industrial Unit/ Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 percent as Partners/Shareholders/Directors of Private Limits company/Members of Cooperative Society”.

Small Scale Service & Business (Industry related) Enterprises (SSSBES)

“SSSBES business related service/Enterprises with investment up to Rs.5,00,000 in fixed assets, excluding land and building are called Small Scale Service/Business Enterprises (SSSBES). This limit has been raised to Rs.1million, w.e.f. September 2000”.

From SSI to SME

In the context of globalization, the need for revising the definition of small-scale industries and broadening the concept for including medium scale industries was rightly recognized. To be globally competitive, they have to expand their size and adopt new technologies. The Internal group appointed by the Reserve Bank of India for examining the revision has recommended.
In India, in view of the importance of the Micro, Small and Medium Enterprises to the development of the economy, a separate Act, governing their promotion and development, come into force from 2nd October, 2006. The Office of Development Commissioner (Micro, Small and Medium Enterprises) functions as the nodal Development Agency under the Ministry of Micro, Small and Medium Enterprises (MSME).

The Micro, Small and Medium Enterprises Act aims at facilitating the promotion and development of Micro, Small and Medium Enterprises ensuring their competitiveness and smooth flow of credit to such enterprises and minimizing instances of sickness among them. It empowers the Central Government to notify programmes, guidelines and instructions for the promotion and growth of these enterprises. Under the Act, the Central Government and the State governments may construct preference policies in respect of procurement of goods and services provided by such enterprises and thus ensure their overall development.

Office of the Development Commissioner (SSI) was established in 1954 on the basis of the recommendations of the Ford Foundation. Over the years, it evolved into an agency for advocacy, handholding and facilitation of the small industries sector. It has over 70 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centres. Office of the Development Commissioner (MSME) provides a wide spectrum of services to the Micro, Small and Medium Industrial sector. These include facilities for testing, toolmenting, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. Office of the Development Commissioner (MSME) provides economic information services and advises Government in policy formulation for the promotion and development of the SSIs. The field offices also work as effective links between the Central and the State Governments.
The main services rendered by DC (MSME) office are:

1. Advising the Government in policy formulation for the promotion and development of the MSMEs.

2. Providing techno-economic and managerial consultancy, common facilities and extension services to the MSMEs.

3. Providing facilities for technology upgradation, modernisation, quality improvement and infrastructure.

4. Developing Human Resources through training and skill upgradation.

5. Providing economic information services.

6. Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of the MSMEs.

7. Evolving and coordinating Policies and Programmes for the development of MSMEs as ancillaries to large industries.

Aims and objectives

"Imparting greater vitality and growth impetus to the Micro, Small and Medium Enterprises (MSME) in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness."

A vast network of field organisations and institutes across the country operate according to the aims, objectives and guidelines laid down by Development Commissioner (MSME).

Organizational Structure

The Ministry of Micro, Small and Medium Enterprises (M/o MSME) is the administrative Ministry in the Government of India for all matters relating to Micro, Small and Medium Enterprises. It designs and implements policies and programmes through its field organizations and attached offices for promotion and growth of MSME sector. The Office of the Development Commissioner (MSME) is attached
to this Ministry, and is the apex body to advise, coordinate and formulate policies and programmes for the development and promotion of the MSME Sector. The office also maintains liaison with Central Ministries and other Central/State Government agencies/organizations financial institutions.

Figure 2.1

Organizational Structure of Development Commissioner (MSME) in India

Source: Ministry of Micro, Small and Medium Enterprises
The Development Commissioner (MSME) have a network of 30 MSME-Development Institute (MSME-DI), 28 Br. MSME-Development Institute (Br. MSME-DI), 4 MSME-Testing Centres (MSME-TCs), 7 MSME-Testing Stations (MSME-TSs), 21 Autonomous bodies which include 10 Tool Rooms (TRs) and Tool Design Institutes (TDI), 4 MSME-Technology Development Center (MSME-TDC), 2 MSME-Technology Development Center-Footwear (MSME-TDC), 1 Electronics Service & Training Centre (ESTC), 1 Institute for Design of Electrical Measuring Instruments (IDEMI) 2 National Level Training Institutes, and 1 Departmental Training Institute and one Production Center.
MSME-Testing Center (MSME-TC) (Formerly Regional Testing Centres (RTCs))

Provide Testing facilities for quality upgradation

Training / constancy in testing, quality control, quality management

Process quality control systems, etc.

Product specific testing facilities are provided by MSME-Testing Stations (MSME-TSS)

Autonomous Bodies

MSME-Technology Development Centre-Footwear (MSME-TDC) (Formerly Central Footwear Training Institutes (CFTIs))

Develop footwear designing to promote exports

Training for manpower in Footwear Industry.

Tool Rooms/Tool Design Institutes (TRs/TDI)

To assist MSMEs in technical upgradation, provide good quality tooling by designing and producing tools, moulds, jigs & fixtures, components, etc.

Provide Training and consultancy for tool and die markers.

MSME-Technology Development Centre (MSME-TDC) (Formerly Product-cum-Process Development Centers (PPDCs))

These are product specific Centres to:

Look into their specific problems and render technical service

Develop and upgrade technologies

Manpower development and training
Training Institutes

There are three National Level Training Institutes. These are:

National Institute of Micro, Small and Medium Industry Extension Training (NIMSMIET), Hyderabad,

National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, which conducts national and international level training programmes in different fields and disciplines.

Indian Institute of Entrepreneurship (IIE), Guwahati, which acts as a catalyst for entrepreneurship development, with its focus on the North East.

Other Associated Agencies

National Small Industries Corporation (NSIC) for technology and marketing support, Small Industries Development Bank of India (SIDBI) an apex bank set up to provide direct/indirect financial assistance under different schemes to meet the credit needs of the small-scale sector and to coordinate the functions of other institutions in similar activities. Khadi and Village Industries Commission (KVIC) assist the development and promotion and disbursal of rural and traditional industries in rural and town areas.

State Level Institutional Support

State Governments execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of the MSME sector in their respective States. These are executed through State Directorate of Industries, who have District Industries Centers (DICs) under them to implement Central/State Level schemes. The State Industrial Development & Financial Institutions and State Financial Corporations also look after the needs of the MSME sector.

Related Links

Technology and R&D: Facilities of testing centres, toolrooms, product and process development design centres, other institutes, Entrepreneurship Development: Programmes for management expertise, skills development and incentives.
Figure 2.2
Classification of Enterprises


(a) For manufacturing enterprises -

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

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

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

(b) For servicing enterprises -

(i) A micro enterprise is one where the investment in plant and machinery does not exceed Rs.10 lakh;
(ii) A small enterprise is one where the investment in plant and machinery is more than Rs.10 lakh but does not exceed Rs.2 crore.

(iii) A medium enterprise, is one where the investment in plant and machinery is more than Rs.2 crore but does not exceed Rs.5 crore.

The SMEs in India meet the expectations of the Government in this respect. SMEs are developed, which made it possible for them to achieve the following objectives:

i) High contribution to domestic production

ii) Significant export earnings

iii) Low investment requirements

iv) Operational flexibility

V) Location wise mobility

vi) Low intensive imports

vii) Capacities to develop appropriate indigenous technology

viii) Import substitution

ix) Contribution towards defense production

x) Technology – orientated industries

xi) Competitiveness in domestic and export markets

At the same time one has to understand the following limitations of SMEs:

- Low Capital base

- Concentration of functions in one / two persons

- Inadequate exposure to international environment

- Inability to face impact of WTO regime

- Inadequate contribution towards R & D

- Lack of professionalism

In spite of these limitations, the SMEs have made significant contribution towards technological development and exports.
The SMEs have been established in almost all-major sectors in Indian industry such as: Food-Processing, Agricultural Inputs, Chemicals & Pharmaceuticals, Engineering, Electricals, Electronics, Electro-medical equipment, Textiles and Garments, Leather and leather goods, Meat products, Bio-engineering, Sports goods, Plastics products, Computer Software etc. As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs are passing through a transitional period. With the slowing down of the economy in India and abroad, particularly in USA and European Union, and the enhanced competition from China and a few low cost centres of production from abroad many units have to face a tough time. Those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves can withstand the present challenges and come out in shining colours to make their contribution to the Indian economy.

SWOT ANALYSIS: SMEs in India

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Low capital base, high employment Potential</td>
<td>➢ Inability to access timely and sufficient capital</td>
</tr>
<tr>
<td>➢ Relatively easy entry and exit</td>
<td>➢ Low credit-worthiness</td>
</tr>
<tr>
<td>➢ Ability to respond to changes in industrial/Market environment</td>
<td>➢ Inadequate infrastructure and other factors of production</td>
</tr>
<tr>
<td>➢ Ability to operate in clusters</td>
<td>➢ Low technology absorption</td>
</tr>
<tr>
<td>➢ Strong presence in terms of numbers and Employment</td>
<td>➢ No economy of scale</td>
</tr>
<tr>
<td>➢ Wide product base</td>
<td>➢ Insufficient resources for sales promotion, HRD</td>
</tr>
<tr>
<td>➢ Contribution to National Economic Growth</td>
<td>➢ Lack of market information, R &amp; D</td>
</tr>
<tr>
<td>➢ Regional development</td>
<td>➢ Poor managerial capability</td>
</tr>
<tr>
<td>➢ Technology innovation</td>
<td>➢ Delayed payment from buyers</td>
</tr>
<tr>
<td>➢ Export market expansion</td>
<td></td>
</tr>
<tr>
<td>Opportunity</td>
<td>Threats</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>➤ Agro-based and bio-products</td>
<td>➤ Global competition</td>
</tr>
<tr>
<td>➤ Vendor development</td>
<td>➤ Increase in competition from MNCs due to Mergers and acquisitions</td>
</tr>
<tr>
<td>➤ Cluster development</td>
<td>➤ Implications of IPR, copyrights, patents etc</td>
</tr>
<tr>
<td>➤ E-Marketing</td>
<td>➤ Dumping of foreign goods</td>
</tr>
<tr>
<td>➤ Knowledge based industry</td>
<td>➤ Entry of large players in areas hitherto reserved for the SSI sector FDI</td>
</tr>
<tr>
<td>➤ IT and Enabled services</td>
<td>➤ Unfavourable and cumbersome procedures</td>
</tr>
<tr>
<td>➤ Service sector</td>
<td></td>
</tr>
<tr>
<td>➤ Export thrust areas like readymade garments, spices, health, pharma, processed foods, finished leather, handicrafts</td>
<td></td>
</tr>
<tr>
<td>➤ Franchising with MNSs</td>
<td></td>
</tr>
<tr>
<td>➤ Business process outsourcing</td>
<td></td>
</tr>
<tr>
<td>➤ Product innovation</td>
<td></td>
</tr>
<tr>
<td>➤ Exploring product application areas</td>
<td></td>
</tr>
</tbody>
</table>

The Indian SME Sector

The SME sector is estimated to comprise almost over 90 percent of all enterprises in the world and accounts for 50 to 60 percent of the total employment (UNIDO).

In India, the micro, small and medium enterprises constitute an important segment of the country’s economy contributed about 39 percent of the country’s manufacturing output and 34 percent of its exports (US $ 31,500 million) in 2005-06. It provides employment to 30.0 million people in rural and urban areas of the country. As on today, the number of SME units in the country is approximately 12.34 million (91 percent of total industrial units), manufacturing more than 8,000 different products.
The process of economic liberalization and market reforms has opened up several possibilities of access to larger markets and, stronger and deeper linkages of SMEs with global enterprises. The high growth in this sector stimulates not only policy changes but also makes the sector more competitive in the present global climate. The government has been focusing on the SMEs ever since economic reforms were begun in the country and has been working as facilitator to bring the Indian SMEs at par with global players.

Growth and performance of MSMEs

Historically, small scale industries in India were associated with the small man and his own resources. Since Independence, there has been a rapid growth of small enterprises sector due to a number of reasons and this sector has registered a continuous growth in the number of units, production, employment and exports. According to the Ministry of MSMEs, the number of micro and small enterprises (MSEs) in India was 109.49 lakh in 2002-03 and increased to 128.44 lakh in 2006-07, the number of unregistered units being roughly five times the registered ones.

Table – 2.2
Number of Micro and Small enterprises in India (in lakh)

<table>
<thead>
<tr>
<th>Year</th>
<th>No.of Units</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered</td>
<td>Unregistered</td>
</tr>
<tr>
<td>2002-03</td>
<td>16.3</td>
<td>93.46</td>
</tr>
<tr>
<td>2003-04</td>
<td>17.14</td>
<td>96.83</td>
</tr>
<tr>
<td>2004-05</td>
<td>18.24</td>
<td>100.35</td>
</tr>
<tr>
<td>2005-06</td>
<td>19.3</td>
<td>104.12</td>
</tr>
<tr>
<td>2006-07*</td>
<td>20.32</td>
<td>108.12</td>
</tr>
</tbody>
</table>


*Estimates based on definitions prior to enactment of MSMED Act, 2006.

Note: Figures in parentheses indicate percentage growth over previous year.
Since medium enterprise under Indian circumstances is, was defined for the first the time under the MSMED Act, 2006 referred to already, it has not been possible to get at the medium enterprises in the country presently. However, informal sources suggest their number to range between 10,000 and 15,000. Further it is estimated that they contribute approximately about 2 per cent of the GDP, more than 10 per cent to the manufacturing output and about 10 per cent to the national exports.

Employment Generation

The employment growth rate for small enterprises in the recent period was higher than that of the large-scale sector. Employment opportunities provided by the MSE sector have a general increasing trend as table 2.3 shows. The annual average growth rate of employment opportunity provided by the MSME sector, in India is 4.04 per cent. It provides employment to an estimated 31.2 million persons in the rural and urban areas of the country, which is second only to agriculture in absolute terms. Thus, it has been a vital source of employment generation for a labour-surplus economy, like India’s.

Table 2.3
Employment Generation (lakh persons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment</th>
<th>Growth over previous years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>263.68</td>
<td>4.5</td>
</tr>
<tr>
<td>2003-04</td>
<td>275.3</td>
<td>4.4</td>
</tr>
<tr>
<td>2004-05</td>
<td>287.55</td>
<td>4.5</td>
</tr>
<tr>
<td>2005-06</td>
<td>299.85</td>
<td>4.3</td>
</tr>
<tr>
<td>2006-07*</td>
<td>312.52</td>
<td>4.2</td>
</tr>
</tbody>
</table>


*Estimates based on definitions prior to the enactment of the MSMED Act, 2006.
Growth trend of Production

There has also been a steady growth in the production front of the MSMEs. In the year 2002-03 it was registered at 8.7 per cent over that of the previous year 2001-02 at constant prices. Similarly, the increase in 2005-06 was 12.3 per cent and 12.6 in 2006-07.

Table - 2.4

Growth of Micro and Small Enterprises' production

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Rs. Crore)</th>
<th>Growth over previous years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>306771</td>
<td>8.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>336344</td>
<td>9.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>372938</td>
<td>10.9</td>
</tr>
<tr>
<td>2005-06</td>
<td>418884</td>
<td>12.3</td>
</tr>
<tr>
<td>2006-07*</td>
<td>471663</td>
<td>12.6</td>
</tr>
</tbody>
</table>


*Estimates based on definitions prior to enactment of MSMED Act, 2006.
(# at 2001-02 prices).

Export performance

The MSME sector has performed commendably in the country’s exports. Overall, it contributes about 45 to 50 per cent of the export basket while direct exports account for nearly 35 per cent of the total exports. The major MSME exports consist of low-skilled labour-intensive goods like garments, leather products, gems and jewellery products, sport goods, plastic products and processed foods. The MSME exports continuously show an increasing trend (table 2.5). They were worth Rs.3,86,013 crore in 2002-03 with 20.7 per cent growth over that of the previous year, and it increased to Rs.1,50,242 crore in 2005-06 with a growth rate of 20.8 per cent growth.
Table - 2.5

Exports from MSMEs sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports from MSME Sector (Rs.crore)</th>
<th>Growth over previous years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>86,013</td>
<td>20.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>97,644</td>
<td>13.5</td>
</tr>
<tr>
<td>2004-05</td>
<td>124,417</td>
<td>27.4</td>
</tr>
<tr>
<td>2005-06</td>
<td>150,242</td>
<td>20.8</td>
</tr>
</tbody>
</table>


The MSME sector has, thus, acquired a prominent place in the socio-economic development of the country during the past five decades, contributing to the overall growth of the GDP, employment generation and exports. According to the new definition of the MSMEs, they contribute nearly 8-9 per cent to our country’s GDP\(^7\). Having emerged as an engine of industrial growth of this sector by virtue of its performance has had a direct impact on the growth of the national economy. It accounts for 37 per cent of the country’s manufacturing output and can achieve as the economic survey 2007-08 noted, sustained higher growth by enhancing its technological capabilities and improving product and service quality\(^8\). The survey also said (CII 2008) that the sector, with a total size of US$ 140 billion, contributing over 45 per cent of the country’s industrial production and about 40 per cent of the total exports, and employing over 31 million people, can source improved manufacturing techniques and management processes with greater ease, made a similar observation\(^9\).

Emerging strategies for SME growth and competitiveness

The central government has several proactive strategy schemes which provide support and facilitate effectively the growth of SMEs. A few important strategies are outlined below.

49
1) Inter-firm linkages

Promotion of inter-firm linkages has opened up new avenues for sub-contracting/outsourcing. The Foreign Direct Investment (FDI) flows into various industrial sectors such as infrastructure, telecommunications, transportation, electrical and electronic equipments, and automobiles have given ample opportunities to the SMEs to emerge as a vibrant sector. Hitherto, the IT application was limited to the large scale sector, but now it is increasingly becoming the domain of small players, as is witnessed in sunrise sectors like food-processing, software, and auto-components.

The increasing presence of trans-national corporations has been tapped to the maximum possible extent to the advantage of the SME sector, facilitated by the government.

2) Public-Private Partnership (PPP)

The key issue when formulating a strategy for the growth of the SME sector pertains to the ways of strengthening its competitiveness. The country is at present facing the problems of infrastructure, which is being taken care of through PPP. This model has also been extended to technological, marketing and financial aspects of SMEs.

3) SMEs and business development services (BDS)

In order to strengthen the functions of market intelligence, advertisement, counseling and consultancy, business development services have been promoted in the private sector. The use of BDS can help the SMEs to generate demand for their products through dissemination of information on markets, counseling and technologies.

4) Easy and Timely credit

Globally, the SME sector faces challenges in respect of access to credit, regulations and competition. Therefore, one of the initiatives taken by the government is to provide support to the SMEs through liberalized procedures. In 2005, the government introduced credit cards for entrepreneurs to facilitate easy and timely credit.
5) Information and Communication Technology (ICT)

The recent developments in the ICT have benefited many SMEs by lowering the cost of business development services in the country. The e-Commerce, which is a faster and more cost effective method of marketing, gives the benefit of direct marketing.

6) Quality up-gradation

Quality has become an important parameter in global markets. While recognizing its importance, the Government of India has initiated several steps to improve the quality of products, services and management in the present business environment.

In order to gain access to the global value chain, the SMEs have been facilitated to upgrade their standards and processes to a significant extent. Implementation of the ISO series of standards by several firms is a reflection of the growing level of importance attached to quality and competitiveness. The certification has resulted not only in improved quality of the product but also in the exchange of information pertaining to new technologies and best working practices among the SMEs.

Since the commencement (1993-94) of the scheme of reimbursing 75 per cent of the costs incurred by the SMEs in obtaining the ISO 9000/14000 certification, on average over 3,000 units have availed themselves of the benefit of the scheme every year.

7) Supply Chain

Globalization of businesses has increasingly drawn the SMEs into global value chains through different types of activities. The networking of globalization has been developed recently through joint selling, joint buying, technology development and improvement, quality standards, learning networks and market research. Many SMEs are trained to establish collaborative linkages with global suppliers in which the role of the government is important in promoting the networks. While facilitating these global chains, the SMEs are confronted with constraints, problems and opportunities. The recent Act has been designed to solve
the constraints and problems while providing better opportunities, and to deliver the
desired results. While providing support to individual firms, the government needs
to look into the factors for developing networking facilitators in a cost-effective
way. In this process, the local SMEs can be interlinked with larger firms, leading to
integration with global value chains.

8) Intellectual Property Rights (IPR)

The innovative capacity and ability to develop new products, processes and
services varies significantly among the entrepreneurs. Innovation has become
inevitable for sunrise industries for their own survival and growth. In such areas,
patenting is particularly important. In a new knowledge-based economy, the
importance of intellectual property rights has been clearly visualized and therefore,
the government has initiated a number of awareness and training programmes,
provided financial assistance, and is offering advisory and consultancy services to
the SMEs. The Government also has established an apex institution called National
Intellectual Property Organization (NIPO), based in New Delhi. The NIPO would
assist in introducing prudent IP management practices within corporations and
promote the IP culture while protecting our interest in the transition to uniform IP
laws in today's knowledge based economy, thereby providing a longterm insurance
against loss of market share.

9) Market Development

The Marketing Development Assistance Scheme (SSI-MDA) offers funding
assistance for (a) Individual participation in overseas fairs/exhibitions; (b) Individual
overseas study tours, or tours of individuals as member of a trade delegation going
abroad; (c) Production of publicity material for overseas publicity; (d) Sector
specific market studies by Industry Association/Export Promotion Councils/
Federation of Indian Export Organizations: (e) Initiating/challenging the anti-
dumping cases by SSI Associations and reimbursement of 75 per cent of the
registration fee paid to the EAN Indian by the SME units.

The financial assistance also includes reimbursement of cost for adoption of
bar-coding. The SIDBI also extends support to micro/small units for undertaking
various activities like marketing research, advertising, branding, and participation in
trade fairs. Further, assistance is also extended to specialized organizations, which provide marketing assistance, infrastructure and support services to industrial concerns in the small scale sector. Marketing support is also provided to the sector through training programmes on Export Marketing and Packaging for Exports.

10) Cluster Initiatives

During the last decade, the cluster approach has come to be recognized as a potent tool to achieve overall development of the sector and is being implemented. Various ministries and departments of Government of India are now adopting the cluster approach as a pivotal strategy for enhancing the productivity and competitiveness as well as capacity-building of SMEs in the country.

The primary characteristic of the cluster approach is in nurturing the value-chain through a range of carefully crafted demand-side and supply-side policy interventions.

Some of the key benefits of this approach to developing the SMES are: (a) Networking among enterprises, (b) Strengthening the human capital, (c) Technology and skill up-gradation, (d) Lowered costs (e) Improved bargaining power, (f) Global visibility, (g) Easier access to finance, (h) Greater Government support, and (i) External players within the value chain.

Important cluster coordinators are end-product or service companies; suppliers of specialized inputs, components, machinery, and services; financial institutions; and firms in related industries, institutions providing specialized training, education, information, research, and technical support (such as universities, think tanks, vocational training providers), and standards-setting agencies.

Schemes have been launched to address the needs of clusters spread across the country, ranging from artisan clusters and rural clusters to pharmaceutical and manufacturing clusters. Under these schemes, with the Government funding and the participation of cluster actors, developmental interventions are carried out for a period of 3 to 5 years to enhance the competitiveness and collective efficiency of the clusters, and to integrate them with global the economy and global supply chain in addition to addressing the need for enhancing domestic marketing.
11) Infrastructure Development

Lack of infrastructure has been one of the constraints affecting the performance of the Indian industry. To address the infrastructure needs an Integrated Infrastructure Up-gradation (IIU) Scheme has been launched. The Scheme seeks to enhance international competitiveness of domestic enterprises by providing quality infrastructure through the PPP mode in selected clusters and locations which have potential for global competitiveness.

12) Common Facility Centres

Lack of testing facilities, tool room facilities, R&D centres, etc., is affecting the performance and quality of products of small enterprises. The small size of the enterprises is an impediment to have testing facilities of their own. To bridge this gap, common facility centres are being promoted in clusters, which will address critical gaps in the supply chain while providing testing and R&D facilities.

The Role and Policy of the Government for Supporting the SMEs

Being aware of the increasing importance of the SMEs which provide a crucial source of entrepreneurship, production, innovation, employment and exports, most of the countries have been strengthening their support to SMEs in recent years. Their supporting programmes are principally related to the following themes:

- Boosting business competitiveness including international competitiveness
- Facilitating the access to finance
- Providing necessary information to grow (e.g. technology, quality control, Market information, etc)
- Providing incentives including tax reduction and subsidies
- Developing human resources including training and education

The Role and Contribution of SMEs to the Economy

In many countries, compared with large firms, the SMEs have grown participating in the more labor intensive activities with less advanced technology. They have participated in the market niches and they are local-market-oriented rather than outward oriented. Even today this trend has not changed. However,
stimulated by opening of the economy, and high economic growth in some countries especially in the Asian countries, many SMEs have started to modernize acquiring new technology, introducing new quality control systems and developing human resources. They have begun to be increasingly outward-looking.

Comparison of the MSE sector with the overall Industrial Sector

The MSE sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the comparative growth rates of production for both the sectors during last five years as incorporated in the Table given below:

Table 2.6
Comparative Growth Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rate of MSE Sector (%)</th>
<th>Overall Industrial Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>8.68</td>
<td>5.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>9.64</td>
<td>6.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>10.88</td>
<td>8.40</td>
</tr>
<tr>
<td>2005-06</td>
<td>13.23</td>
<td>8.10</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.60</td>
<td>11.5</td>
</tr>
<tr>
<td>2007-08 *</td>
<td>13.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

* Projected

Source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India

Contribution of MSMEs in the Gross Domestic Product (GDP)

As the table given below shows the share of the MSME sector in the total industrial production was 39.74 per cent in the year 1999-00. It gradually decreased to 38.57 per cent in the 2006-07. A decreasing trend is noticed in the contribution of the MSME from 1999-00 onwards. This sector's contribution to the Gross Domestic Production was 5.86 in the year 1999-00; it increased to 6.04 percent in the year 2000-01. It decreased to 5.77 in the year 2001-02 and rose again to 5.91 in the year 2002-03 and it stood at 5.94 in the year 2006-07. It indicates ups and downs in the contribution of the MSME to the GDP between the years 2003-04 to 2005-06.
### Table 2.7

**Contribution of MSEs in GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution of MSME (%) at 1999-2000 prices in</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Industrial production</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>1999-00</td>
<td>39.74</td>
<td>5.86</td>
</tr>
<tr>
<td>2000-01</td>
<td>39.71</td>
<td>6.04</td>
</tr>
<tr>
<td>2001-02</td>
<td>39.12</td>
<td>5.77</td>
</tr>
<tr>
<td>2002-03</td>
<td>38.89</td>
<td>5.91</td>
</tr>
<tr>
<td>2003-04</td>
<td>38.74</td>
<td>5.79</td>
</tr>
<tr>
<td>2004-05</td>
<td>38.62</td>
<td>5.84</td>
</tr>
<tr>
<td>2005-06</td>
<td>38.56</td>
<td>5.83</td>
</tr>
<tr>
<td>2006-07</td>
<td>38.57</td>
<td>5.94</td>
</tr>
</tbody>
</table>

Source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India

### Significance of MSMEs in Indian Economy:

The Indian industrial economy is characterized by a dynamic and versatile set of enterprise actors, who are small and medium in terms of scale of operations. This SME category has been leading a typical competitive advantage to Indian industry in terms of controlling sufficient markets globally, because of the enterprises their ability to make available low-volume customized products, flexible response and lower fixed overhead costs. The other typical behaviour of these SMEs is that in most cases, depending upon their specialization, they have evolved as clusters.

The importance of SMEs as compared to Corporate Enterprises with regard to their contribution towards Indian economy can be best understood by the fact that they have a share of 40% in terms of volume, 80% in terms of employment, 60% in terms of exports and 92% in terms of number of enterprises. These figures indicate of their economic significance.
With the changing focus from economic growth to inclusive growth, the MSMEs sector role in the socio economic development of India needs to be understood fully. What makes the MSMEs that special in their relation to the socio-economic development of the country may be understood by the following:

- Wide spread reach: There are around 12.34 million (1) MSMEs, including 1.9 million registered ones spread over the whole of India. They touch approximately the lives of 123.4 million directly or indirectly which is roughly 10% of India’s population.

- The combine output of the MSMEs is roughly 7% of the country’s Gross Domestic Production (GDP).

- This sector is the second largest manpower employer in the country next only to the agriculture sector, providing employment to more than 20 million people which is roughly 2% of the country’s population. Thus, it helps considerably in solving the unemployment and under-employment problem in the country.

- This sector facilitates balanced regional development: as the MSMEs are dispersed in all parts of the country what ever be their geographical location and help in removing regional imbalances by promoting decentralized development of industries.

They also help in reducing pollution, congestion, problem of housing, sanitation etc.

- In equitable distribution of wealth/income: When the entrepreneurial talent is allowed to grow in different regions and areas, the income is also distributed instead of being concentrated in the hands of few. This help in narrowing down the gap between the rich and poor. The MSMEs provide a natural habitat for entrepreneurs and nature entrepreneurship. They enable people of latent/ raw talent available locally to hone their skills and talents, to experiment, to innovate and transform their ideas into goods and services needed by the society.
Problems and Challenges of SME Sector

With increasing competition on account of globalization of the Indian economy, size of the small enterprises and the level of technology employed by them have assumed critical significance for their global competitiveness. Several policy initiatives have been taken over the years to address the problems faced by the sector, such as difficulty of access to timely and adequate credit, technology obsolescence, infrastructure bottlenecks, marketing constraints and a plethora of rules and regulations. Despite them the small-scale units have remained mostly tiny, technologically backward and lacking in competitive strength. Following are some of the reasons for their failure.

I) Problems of Credit

Lack of adequate and timely institutional credit is a frequent complaint of the MSMEs. The capital base of majority of the MSMES is very weak. Banks insist on collateral, which the small entrepreneurs, with limited resources, are unable to furnish. Bank officials frequently point out to the high level of Non-Performing Assets and the poor culture of repayments to justify their cautious lending policies. There is the trust and understanding between bank officials and industrialists in India. During recession, the bankers often back on lending, impose heavy penalties for defaults and try to recover as many advances as possible. This makes it nearly impossible especially for the small-scale industry to survive through a recession.

A study by the Federation of Indian Chambers of Commerce and Industry (FICCI March 2004) pointed out that the share of the small industry sector in bank credit outstanding, which was 14.2 percent earlier, had come down to 11.1 per cent in March 2003. The shortage of finance and credit creates a whole group of problems relating to size of the unit, the quality of labour, market coverage, purchase of raw materials, machinery and equipment; all these problems, in turn, lead to low and poor quality of production.

II) Problem of Marketing

Marketing is another major stumbling block for the MSMEs as they lack marketing wherewithal to sell their products effectively. Financial difficulties do not permit them to offer attractive credit terms, etc., to the marketing intermediaries.
Another problem faced by them is the competitive (dis) advantage vis-a-vis large-scale units, because of shortage of capital and financial resources. Many MSMEs supplying the same product creates a situation of competition among themselves. Large-scale industries, finding themselves in a strong bargaining position, purchase products from the MSMEs at competitive rates, with the result that the small units ultimately lose in the bargain.

iii) Problem of Power

Supply of power for the MSMEs in the country is inadequate, uncertain and breakdown is frequent, which results in damage to the plant and causes suspension of work for long hours. The shortage of power was 9.4 per cent in 1986-87, and 10.8 per cent in 1987-88, but it increased to 17 per cent in 200111.

iv) Problem of Raw Material

In view of the rising tempo of industrial activity the shortage of right type of raw material at standard price has affected the entire industrial sector. Because of their smallness and weak financial position, the MSMEs are in a vulnerable position. Often they have to utilize the services of middlemen to get raw materials on credit. Such arrangement has serious repercussions on costs and revenues. The situation is particularly disadvantageous when raw materials are imported, as the profit margins of middlemen are rather high. Their meagre resources induce small industrialists to use cheap and inferior materials, which naturally affects the quality of their finished products. Moreover, irregular supply of certain raw materials adversely affects their production programmes.

v) Problem of Closure of units

Closure of units in the registered SSI sector has been a perennial feature. In the first Census of Registered SSIs (now MSMEs) conducted in 1973-74, it was found that 38.2 per cent of units registered till 30th November 1973 were closed. The third Census observed that, out of a total of 2,62401 permanently registered units surveyed in the registered SSI sector, 8,87,427 units (39%) were found closed. Of these 3,36,492 units(38%) were located in rural areas12. In many cases there was more than one reason operating simultaneously and they would be linked to the same source too. This resulted in sickness and closures.
Thus, today the main limitations of MSMEs are: Low capital base, concentration of functions in one/two persons, inadequate exposure to international environment, inability to face the impact of WTO regime, inadequate contribution towards R&D, and lack of professionalism.

Problems faced by SMEs

The expectations from the SMEs to contribute towards achieving India’s targeted economic growth rates of 9-10% are huge. Today’s highly globalised environment with competition from across the globe has thrown a multitude of challenges to the SME sector. Although the SMEs have overcome the tough period and demonstrated their ability to compete with the large-scale sector, still this sector encounters innumerable problems. The following are major problems include:

(1) Lack of information and awareness.

(2) Lack of adequate and time credit.

(3) Non-availability of funds for up-gradation.

(4) Minimal or no assess to modern management practices.

(5) Absence of structured trade information.

(6) Technological obsolescence and low levels of innovation.

(7) Liquidity crunch and high rate of interest.

(8) Skilled manpower shortage.

(9) Restricted export basket.

Incentives from Government

Incentives from Government are as follows:

1) Capital Subsidy for international designs

2) Withdrawal of Reservation quota from the SSI Sector

3) New Purchase Preference Policy
4) Increase of Credit fund

5) Excise exemption for Big Brand SSIs

6) Intervention of the TRAI in slashing the tariff of the MSMEs

7) The MSME Credit monitoring cell

8) Miscellaneous proposals to help the SMEs

Future of SMEs

Indian Small and Medium enterprises (SMEs) are set to go global with opportunities flowing in from all parts of the world. After the SMEs from Germany and the UK, the US has expressed willingness to invest and explore possibilities of technology transfer to Indian SMEs. In view of the government’s decision to remove the 24 per cent cap on investment in the Small Scale Industries (SSI) sector, the American Chamber of Commerce in India (AMCHAM), the Chamber of all US companies working in India, is working to bring to India select group of US SMEs.

The SME organizations within the UK, called as the Genesis Initiative UK, is also in the process of setting up the Genesis Initiative India, the objective of which would be to promote linkages with existing members across the globe and articulate the concerns of the sector. With all these opportunities round the corner, the SME associations like the Federation of Indian Micro and Small and Medium Enterprises (FISME) believe that competitive pressures and the push for a technological upgrade will fuel the growth of Indian SMEs.

Small and Medium Scale Sector in Andhra Pradesh

Every state in India has developed its own strength in the small-scale sector and the sources of its strength has largely depended upon the type of raw materials locally available, local entrepreneurial capabilities, traditional skills and craftsmanship, the base of local infrastructure, support facilities in the form of credit, marketing, etc, and finally the political will to implement the policy measures initiated at various levels from time to time. The economy of Andhra Pradesh, predominantly agricultural in nature, witnessed a pleasant shift on the industrial front during the 1970s when there was a spurt in the number of large, medium and
small-scale industries in several sophisticated lines. Although, this industrial development had to face certain ups and downs due to natural calamities and occasional spells of power shortages, the rate of growth was steady. Today, the state is considered one of the fastest developing states in the country with a significant growth with its abundant natural resources and good infrastructure. The state has made remarkable progress in the agricultural sector, but the development in the industrial sector has not been impressive.

On par with the National liberalised industrial policy 1991, the A.P. State Government also formulated its New Industrial Policy during 1995. To encourage young entrepreneurs, the APIDC initiated a venture capital scheme in the state with the financial assistance of World Bank. To revive industrial cooperative societies, the Government of A.P. formulated and implemented an action plan. Plant Processing Industry is being established at Bellampalli at a total cost of Rs.111.76 lakh. For the benefit of scheduled caste people, Stone Polishing Association is being constructed near Tadipatri of Anantapur District. By all these activities, the state is in the fourth place in attracting Foreign Direct Investment.

Table - 2.8

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Units</th>
<th>% of growth over previous year</th>
<th>Investment in crores of Rs.</th>
<th>% of growth over previous year</th>
<th>Employment in number of Persons</th>
<th>% of growth over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>4935</td>
<td>100</td>
<td>297.23</td>
<td>85.547</td>
<td>49999</td>
<td>16.508</td>
</tr>
<tr>
<td>1998-99</td>
<td>4997</td>
<td>-1.256</td>
<td>551.5</td>
<td>-2.263</td>
<td>58253</td>
<td>-31.911</td>
</tr>
<tr>
<td>1999-00</td>
<td>4995</td>
<td>-16.05</td>
<td>539.02</td>
<td>-39.377</td>
<td>39664</td>
<td>-35.879</td>
</tr>
<tr>
<td>2000-01</td>
<td>2124</td>
<td>-49.368</td>
<td>326.77</td>
<td>-20.28</td>
<td>25433</td>
<td>-24.464</td>
</tr>
<tr>
<td>2002-03</td>
<td>1641</td>
<td>1.799</td>
<td>234.5</td>
<td>-7.797</td>
<td>24293</td>
<td>-34.242</td>
</tr>
<tr>
<td>2003-04</td>
<td>1573</td>
<td>-4.144</td>
<td>204.05</td>
<td>-12.985</td>
<td>21943</td>
<td>-9.674</td>
</tr>
<tr>
<td>2004-05</td>
<td>1632</td>
<td>3.751</td>
<td>266.12</td>
<td>30.419</td>
<td>24076</td>
<td>9.721</td>
</tr>
<tr>
<td>2005-06</td>
<td>1267</td>
<td>-2.365</td>
<td>245.37</td>
<td>-7.097</td>
<td>15832</td>
<td>-34.242</td>
</tr>
<tr>
<td>2006-07</td>
<td>833</td>
<td>-34.254</td>
<td>222.6</td>
<td>-5.204</td>
<td>10511</td>
<td>-33.609</td>
</tr>
<tr>
<td>Growth rates</td>
<td>-43.48</td>
<td></td>
<td>18071</td>
<td>-117.096</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Commissionerate of Industries, Government of Andhra Pradesh.
The above table shows the growth in the small scale industry as well as the large scale industries in Andhra Pradesh. The data is analysed by considering the changes in the number of units, investment and employment. It was also analysed by considering the changes per unit in employment and per unit in investment during the study period of 1997-2003. The number of SSI units in the state had declined from 4,935 units in 1997-98 to 2,375 units in 2006-07. It means that the decline in the number of units was by 50 per cent over a period of 10 years. But investment increased from Rs.297.23 crore in 1997-98 to Rs. 837.50 crore by 2006-07. The end point comparison of investment shows the fluctuation in the investment and the employment of SSI shows non-regular trend for a period of 10 years. The increase in the number of employees in the years 2001-02 to 2005-06 was between 20,000 and 60,000. The average annual growth rate values depict the negative growth in respect of number of units at 43.48, a marginal rate of 18 per cent positive growth in respect of investments, and again a negative growth rate of -117.096 per cent in respect of employment value were recorded over a period of 10 years 16.

Table 2.9

Employment in Large & Small Scale Industries and total Industrial Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment in SSI</th>
<th>Employment in LSI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>49999</td>
<td>1138094</td>
<td>1188093</td>
</tr>
<tr>
<td>1998-99</td>
<td>58253</td>
<td>2905232</td>
<td>2963485</td>
</tr>
<tr>
<td>1999-00</td>
<td>39664</td>
<td>8706091</td>
<td>8745755</td>
</tr>
<tr>
<td>2000-01</td>
<td>25433</td>
<td>881621</td>
<td>907054</td>
</tr>
<tr>
<td>2001-02</td>
<td>19211</td>
<td>878511</td>
<td>897722</td>
</tr>
<tr>
<td>2002-03</td>
<td>24293</td>
<td>979172</td>
<td>1003465</td>
</tr>
</tbody>
</table>

Source: Commissionerate of Industries, Government of Andhra Pradesh.
The above table shows the trends in employment in both type of industries and also total employment. The figures in the table reveal that there is a decline trend in the small-scale and large-scale and total employment during the study period. It reflects in consonance with the results observed in the above tables as we mentioned earlier the negative trend in the employment either in the small-scale industries may be because of the implementation of economic reforms in India since 1991.

The policy makers, and administrators in India have for long recognized the important role that small and medium enterprises play in the national economy. Therefore the Central and State Governments have taken, over the years active steps to promote and foster their growth. But these measures have not been particularly effective. Today, these enterprises continue to suffer from innumerable problems which hinder their performance and growth. Many of the problems of finance, marketing, production, distribution and infrastructure still continue to afflict the small-scale sector. While some of them are more or less common to a wide range of small enterprises all over the country, others have particular relevance to groups of small and medium enterprises situated in rural and backward areas. In this chapter the problems faced by the enterprises in the field of pharmaceutical unit in Andhra Pradesh, the study area, are detailed. The general problems faced by the small and medium enterprises are detailed below.
The General Problems for Small and Medium Enterprises

The problems of small and medium enterprises can be grouped into two: external and internal. External problems result from factors beyond the control of the entrepreneurs, such as the availability of power and other infrastructure facilities required for the smooth running of small and medium enterprises; while the internal problems are not influenced by the external forces. The internal problems affecting small and medium enterprises relate to organization, structure, channels of production and distribution, training in the know-how, enterprises relations among themselves and with others and inadequacy of management, etc. However, it is true that the external and internal problems are not mutually exclusive. They are closely connected and affect one another. It is to be constantly borne in mind that the problems encountered by enterprises, big or small, are very much the problems of their entrepreneurs who are the kingpins of their respective enterprises. In other words, the problems of enterprises are very much the problems of their entrepreneurs.

The major issues with create problems in the establishment and smooth running of small and medium enterprises are obtaining adequate finance, marketing, management, obtaining raw material, infrastructure, labour, government regulations technology faulty planning, licence, recoveries and others. These are considered one after another hereafter.

Financial Problems

Generally, most small and medium enterprises face the problem of finance at the time of making the initial investment as well as during the course of management of the enterprises. S.N Patnaik in his study found that almost all enterprises faced difficulties in raising term loans and working capital. R.P Sinha in a study of 100 small enterprises in Patna city of Bihar found that 85 per cent enterprises faced the problem of finance. Finance is not easy to come by and the entrepreneurs have to depend on more than one source and pay heavy investment charges and pass through many an ordeal and subsequent delay before they obtain the required finance. Similarly enterprises which are ancillary to other large enterprises do not receive timely payments from the mother enterprises for their supply. Besides this, lack of access to finance, inadequate working capital, non-
availability of credit at the right time, delays in sanctioning and dispersing loans, huge rates of interest on loans raised are the other problems faced by small and medium enterprises.

Marketing Problems

Marketing is another major problem faced by small and medium enterprises. The problem of marketing are manifold; lack of market intelligence, weak marketing network, lack of market information, absence of worthwhile marketing assistance from government agencies, cut-throat competition among enterprises, lack of proper marketing channels, lack of standardization, poor finish, poor bargaining power, lack of quality control, lack of precision, poor finish, poor bargaining power, lack at the time of service and afterwards, scale of production, customer's brand preferences, lack of distribution contacts, lack of knowledge of marketing, competition, ignorance of potential markets, unfamiliarity with export activities (producers and market know-how), financial weakness, lack of advertising (because it is very expensive), lack of good salesmanship, etc., are among the severe problems faced by the small and medium entrepreneurs, which make even their survival difficult.

Management Problems

Most diagnostic studies of small and medium enterprises reveal that the chief cause of sickness in small enterprises is lack of managerial skills and capabilities. The entrepreneur is not a professional like a doctor or an engineer who is trained for his profession and he does not have any training for acquiring managerial skills. Often he has to acquire them by trial and error and by the hard way.

1. Bad or incompetent management is one of the recurring factors.

2. Corrupt practices such as removal of assets charged to the banks, diversion/siphoning-off of funds, extravagant expenditure, under invoicing of sales, over invoicing of purchases etc., are often noticed.

3. It has been observed that in some cases while the enterprise has gone sick, their promoters have prospered. They consistently look in to the public sector banks and institutions for soft loans, and concessions. Even when an enterprise turns sick, its promoters continue to live a life of extravagance. They also do not furnish the desired information to the banks/institutions.
Raw Material Problem

Production related constraints are generally accelerated by the wrong selection of location of the enterprises, poor implementation and management. Several very small enterprises have been established in rural and backward areas chiefly because subsidies and incentives from the government are easily available but they face the problems of raw materials which are not available in time. The timely supply of raw materials ensures the growth of an enterprise. The cost of a product depends on the availability of raw material at reasonable rates. The state government claims to have made several arrangements to supply in time raw materials to the small and medium enterprises fixing the priority for their supply. But in reality it is not happening. Either the entrepreneurs will not get the raw materials in time or what they get is not up to the mark. Besides, there are problems of transport, strikes, bundhs, floods, famines and other natural havoccs which affect the supply of raw materials.

Infrastructure Problems

Infrastructure is another major and complex problem faced by the small entrepreneurs. It includes roads, power, telecommunication, post-office, location, water, etc. It constitutes one of the predominant factors for the success of small enterprises. The adequacy of infrastructure facility contributes to the physical and financial growth of small and medium enterprises.

Labour Problems

Labour is yet another major problem. Productivity of labour is generally low in rural and backward areas. Labour unrest has been felt in urban and semi-urban areas. Labour turnover is a serious problem in urban centres. Absentecism is a serious problem in rural areas because rural labourers depends more on agriculture, their mainstay. Skilled labourers have switched over to small and medium enterprises because of better wages and other opportunities.

Government Regulations

Entrepreneurs have bitterly complained about the Government's policies towards the small enterprises. They are not happy with the terms of lending, subsidising and concessions given to them. They also complain about the indifferent
and unhelpful attitude of various Government departments. Moreover, entrepreneurs of one industrial complex complained that the Government did not fulfil its promise to buy their products especially agro-products, at support price for industrial productions. In other words promises and assurances by the government are readily given but not always kept.

Faulty Planning

Another problem which causes great concern to the entrepreneurs is faulty planning and inadequate appraisal of projects. No proper viability studies, technical or economic, are carried out before enterprises are sponsored. Because of faulty planning and improper assessment of feasibility, many small and medium enterprises die even before they really get started.

License

The problem for the entrepreneur of the small scale sector is to obtain license from the state government department concerned, and local bodies, etc., despite the helpful policy of the government; petty officials are often unhelpful for no particular reason. A lot of time and energy is wasted in persuading them to perform their duties. It is also true that the entrepreneur in the small-scale sector does not often know how to make an approach and avail himself of the various facilities announced by the Central and State governments. Alternatively, he may not be in a position to communicate with the well-organized, urbanized bureaucracy. These handicaps make it difficult for the entrepreneur to function, and hinder the growth of the small-scale sector in the country.

Recoveries

One of the most difficult problems of the small entrepreneurs today is recoveries from sales. It is an established practice for buyers to expect credit from sellers. The practice is forced upon the small entrepreneurs by the larger ones. Initially credit is made available for a month or two; but with the tight money market conditions, a situation develops in which buyers do not pay their suppliers for over twelve months and yet get away with it.
Other Problems

Besides the above, the small entrepreneurs face other problems: lack of proper guidance on the identification of investment opportunity, lack of training facilities in management, production and marketing including advertising and packaging, non-availability of land and infrastructural support for setting up enterprises, ultimately disbursement of loan on subsidy, lack of adequate power, absence of social infrastructure facilities etc.

The present study makes an attempt to highlight the problems faced by the Small and Medium Enterprises (SMEs) with particular reference to the pharmaceutical industry, in Andhra Pradesh.

Reasons for developing the SMEs Sector

There are many reasons for which India should take special interest in the expansion of the SME sector. One important reason is that this sector is labour intensive. To solve the mounting unemployment problem one of the best way available with the Government is to boost the SMEs and provide self-employment avenues for the unemployed youth.

Secondly, to reduce the regional disparity, of the SMEs are encouraged wealth can be generated with a short gestation period which will be helpful for maintaining equilibrium in the distribution of wealth in the Country and reducing regional disparities among the states.

Globally, today carbon emission is a serious problem and giant companies are now greatly exercised over the protection of environment. Carbon emission is caused by the direct and indirect operations of entrepreneurs. If the carbon footprint is not controlled it will cause great damage to the world at large. Therefore, in this situation it is better to encourage SME sector where there is less possibility of using heavy machineries and the carbon emission can be reduced to a great extent. Generally less ecological imbalance is found in the SME sector which is some times more dynamic, innovative and makes use indigenous technologies. They assist in the decentralization of power. Their technology and innovations have considerable scope for developing further their talent.
References

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