CHAPTER III

SMALL SCALE INDUSTRIES – AN OVERVIEW
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3.1 Introduction

Small-scale industries contribute significantly to social and economic development objectives such as labour absorption, income distribution, rural development, poverty eradication, regional balance and promotion of entrepreneurship. In fact they play an important role in the process of a country’s industrial development.

Particularly in developing countries, small labour-intensive industries have been favoured basically to create employment opportunities in an economy with abundant unskilled labour even though such industries may not always be supported on grounds of economic efficiency. In addition, a low capital requirement, given an appropriate market environment, is believed to stimulate growth of numerous indigenous industries with wide regional dispersal. This helps to promote balanced growth, more equitable income distribution, as well as diversification of the industrial structure which often leads to increased utilization of national resources. The process, if properly nurtured, can help the entrepreneurial class and boost capital formation as well as growth of industries in the small sector in urban and rural areas. Such processes create the basis for transformation of technology, management and pave the way for creative development while sustaining national heritage and skills. It will also pave the very for the growth of right type of entrepreneurship in the country.
Promotion of Small-scale industries has been one of the main strategies for economic development in the developing countries since the 1950s. The special feature of the planning in India is that it does not stop at giving conceptual emphasis to the growth of Small-scale industries, but it has in particular drawn up a concrete and constructive planned programme to attain the planned objectives. The development of Small-scale industries as the focal point of industrial development is evidence of the awareness of the Government to propagate and develop this sector for the ultimate objective of tackling the all-prevailing and ever-growing problem of unemployment.

The small and medium enterprises today constitute a very important segment of the Indian Economy. The development of this sector came about primarily due to the vision of our late Prime Minister Jawaharlal Nehru who sought to develop core industry and have a supporting sector in the form of small scale enterprises. SMEs sector has emerged as a dynamic vibrant sector of the economy. The Indian economy is expected to grow by over 8 per cent per annum until 2020 and can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and United States by 2032. The turnaround in manufacturing and other sectors, which has occurred in the face of increased global competition, is due to improved efficiency following the various polity reforms in recent years. Small and

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Medium Enterprises (SMEs) constitute 6% of GDP, 34% of national exports and account for the employment of more than 30 million people\textsuperscript{3}. This paper is divided into three sections, the first section deals with the definition aspect of the SME’s and Indian economy’s general aspects, the second section deals with the challenges faced with SME’s and third on their impact on the Indian Economy. SME is the abbreviation of Small and Medium Enterprises. These enterprises can be rightly called as the backbone of the GDP of India. The SME sector in India is growing at an exceptionally fast rate due to which it is proving to be beneficial to the Indian Economy. Following are some of the current figures related to the SME sector in India.

- The contribution of the SME sector to the entire output of the country is 40%.
- Currently, there are over 11 million SME units in India that produces more than 8000 products.
- 90% of the industrial units in India belong to the SME sector.
- These SME units contribute 35% to the Indian Industrial Exports.

Following are some of the factors that have contributed to the growth of SME sector in India.

- SME units in India are being funded by foreign and local fund providers.
- The advancement in technology has also contributed highly to the SME sector. There are numerous business directories and trade portals

available online that contains a rich database of Manufacturers, sellers and buyers.

- To start and maintain these units minimal investment is required.
- These SME units are now being funded by many government and private banks.
- The SME sector is one of the greatest contributors of domestic production as well as the export earnings. Many major mergers have taken place recently.  

Though the SME sector in flourishing and expected to grow further in the near future, there are however certain challenges that the SME sector will have to face.

3.2 Meaning and Definition of Small, Micro and Medium Enterprises

3.2.1 Small and Medium Enterprise

Small and Medium-Sized Enterprise (SMEs, Small And Medium-Sized Businesses, SMBs and variations thereof) are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). The term "small and medium businesses" (or "SMBs") is predominantly used in the USA. In most economies, smaller enterprises outnumber large companies by a

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5 http://mashable.com/category/smb/
wide margin. SMEs are said to be responsible for driving innovation and competition in many economic sectors.\(^6\)

### 3.2.2 Micro-Enterprise

A micro-enterprise is one where the investment in plant and machinery (their original cost excluding land, building and items specified by the Ministry of Small Scale Industries in its notification No. S.O. 1722(E) dated October 5, 2006) does not exceed ₹ 25 lakh.\(^7\)

### 3.2.3 Small Enterprise

A small enterprise is one where the investment in plant and machinery (see above) is more than ₹ 25 lakh but does not exceed ₹ 5 crore.\(^8\)

![Exhibit 3.1. Classification of MSMEs](image)

### 3.2.4 Medium Enterprise

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

The definition of MSMEs in the service sector is:

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\(^8\) Small and Medium Enterprises Development (MSMED) Act, 2006, p. 5.
Micro-enterprise: Investment in equipment does not exceed ₹ 10 lakh

Small enterprise: Investment in equipment is more than ₹ 10 lakh but does not exceed ₹ 2 crore

Medium enterprise: Investment in equipment is more than ₹ 2 crore but does not exceed ₹ 5 crore.\(^9\)

3.3 Basic Issues of SMEs, Past, Present and Future

Today, small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. The small scale industry accounts for 40% of gross industrial value addition and 50% of total manufacturing exports.\(^10\) More than 3.2 million units are spread all over the country producing about 8000 items, from very basic to highly sophisticated products. The SMEs are the biggest employment-providing sectors after agriculture, providing employment to 29.4 million people. However SME’s, which constitute more than 90% of total number of industrial enterprises, are now facing a tough competition from their global counterparts due to liberalization, change in manufacturing strategies, technological changes, and turbulent and uncertain market scenario. This contribution is despite the sector being exposed to intensified competition since liberalization of Indian economy in 1991. Small industry in India has been confronted with an increasingly competitive environment due to:

\(^9\) Ibid.

• Liberalization of the investment regime in 1990s, favoring foreign direct investment (FDI)

• The formation of the world trade organization (WTO) in 1995, forcing its member countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and Domestic economic reforms.

• The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying the sector has no option but to ‘compete to perish’.

3.4 Importance of SME

The opportunities of growth in the SMEs sector are enormous due to the following factors.

1. Less Capital Intensive

2. Extensive Promotion & Support by Government

3. Reservation for Exclusive Manufacture by small scale sector

4. Project Profiles

5. Funding- Finance & Subsidies

6. Machinery Procurement

7. Raw Material Procurement

8. Manpower Training

9. Technical & Testing support

10. Tooling & Testing support

11. Reservation for Exclusive Purchase by Government

12. Export Promotion

13. Growth in demand in the domestic market size due to overall economic growth

14. Increasing Export Potential For Indian products

15. Growth in requirements for ancillary units due to the increase in number of green-field units coming in the large scale sector\(^\text{12}\).

The following point further demonstrate the importance of Small-scale industries

1. Small is Beautiful “Small is beautiful”, said E.F. Schumacher. He maintains that man’s current pursuit of profit and progress, which promotes giant organizations and increased specialisation, has in fact resulted in gross inefficiency, environmental pollution and inhuman working conditions. Schumacher emphasizes on small working units, communal ownership and regional work places utilizing local labour and resources.

2. Innovative and Productive: It is the small units which are highly innovative; though do not maintain their own research and development wings.

3. Individual Tastes Fashions and Personalised service: Small firms are quick in studying changes it tastes and fashions of consumers and in adjusting the production process and production accordingly.

4. Symbols of National Identity: Small enterprises are almost always locally owned and controlled and they can strengthen rather than destroy the extended family and other social systems and cultural traditions that are perceived valuable in their own right as well as symbols of national identity.

5. Happier in Work: People who work in small enterprises are happier in their work than those who work in large ones in spite of lower wages and poor standards of safety, comfort and welfare facilities.

6. Always Winners of the Game: Small enterprises and new entrepreneurs were at the forefront of practically every business boom of the last decade, whether it was computers, television sets, consumer electronics, garments, diamond exports or advertising.

7. Rapid growth of SSI: The SSI Units witness a rapid growth in recent years, The size of the sector was estimated at 361.76 lakh Units upto the year 2013-2014.\(^{13}\)

In pursuance of the objectives of the policy statement, the Government of India has decided to take a series of initiative in respect of the policies related to the following areas:

**Small-Scale Industries**

(i) Financial Support

(ii) Infrastructural Facilities

(iii) Marketing and Exports

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\(^{13}\) Annual Report 2013-2014 of Ministry of Micro, Small and Medium Enterprises, P.20
Modernisation

Promotion of Entrepreneurship

Simplification of rules and Procedures

Tapping Resources\textsuperscript{14}

Tiny Sector

Investment

Broadening the concept of service sector

Locational

Simplification of Rules

Handloom Sector

Project Package Scheme

Welfare Package Scheme

Organisation and Development scheme

NHDC as a Nodal Agency

Handicraft Sector

Extending services like supply of raw materials etc.

Market Development Support

Expansion of Training Facilities

Other Village Industries

Improving Quality

Enquiring better flow of credit from financial institution

Thrust on the traditional village industries

(iv) Setting of functional industrial estates

(v) Upgrading the training programmes

(vi) Coordinating with development programmes.

3.5 Challenges Faced By SME

Despite its commendable contribution to the Nation’s economy, SME sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which is a handicap in becoming more competitive in the National and International Markets.

SMEs face a number of problems

➢ Absence of adequate and timely banking finance
➢ Limited capital and knowledge, non-availability of suitable technology
➢ Low production capacity
➢ Ineffective marketing strategy
➢ Identification of new markets
➢ Constraints on modernization and expansions
➢ Non availability of highly skilled labor at affordable cost
➢ Follow-up with various government agencies to resolve problems etc\(^{15}\).

3.6 SMEs Contribution to Exports

SMEs sector plays a major role in India’s present export performance. 45%-50% of the Indian Exports is contributed by the sector.\(^{16}\) Direct exports

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from the sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. The exports from SMEs sector have shown excellent growth rates in this decade. The product groups which dominate the exports from SMEs sector include sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products. The SMEs is reorienting its export strategy towards the new trade regime being ushered in by the WTO.  

3.7 SMEs Contribution to Indian Economy  

Growth of the Indian economy has accelerated to 8% and efforts are on to further propel it to 10%. Undoubtedly, all the segment of the economy, viz., agricultural, industries and services has to improve their contribution to the economy. Growth of Small and medium enterprises (SMSs) is a sine qua non for the growth of industries.  

Furthermore, promotion of entrepreneurship is also vital for sustenance and upward movement of the current growth trajectory of the economy. The SME sector acts as a catalyst in upholding and encouraging the creation of the innovative spirit and entrepreneurship in the economy, thereby helping in

laying the foundation for rapid industrial development\textsuperscript{18}. Moreover, the sector also serves the vital objectives of employment generation and balanced regional development. Localization and liberalization of the Indian economy have also brought a host of opportunities for the industrial sector, particularly the SME segment. While SMEs responded to competition reasonably satisfactorily, there is scope for increasing their export potential, domestic market share and developing them as serious players in the global value chain. SMEs represent the largest proportion of the manufacturing sector in every country. In India, 95\% of the industrial units are in small-scale sector with 40\% addition in the manufacturing sector and 6.29 percent contribution to the Indian Gross Domestic Product. (Times of India, 2002).

3.8 Role and Responsibilities of Small Business Owners

Exhibit 3.2. Role and Responsibilities of Small Business Owners

Identification of Business Concept: Entrepreneurs must first conceptualize their businesses. This conceptualization may occur as a natural extension of the creativity process in which new ideas reshaped into visions of useful products or services. It

Exhibit 3.3. Stages in the formation of SSI
3.9 Characteristics of Small Industries

Although, there is no such thing as the typical small industries, they do share many unique characteristics. Small is relative term.

1. Capital investment is small
2. Most have fewer than 10 workers
3. Generally engaged in the production of light consumer goods, processing etc.
4. Located in rural and semi-urban areas.
5. There is a plethora of one-person firms.
6. Virtually all of these firms are privately owned and are organized as sole proprietorships.
7. Proprietor and family workers generally form the large component of small industry labour force.
8. Hired workers are unorganized.
9. The average person does not work full-time in one activity over the entire year.
10. Fixed assets form the largest component of small units.
11. Most of the funds come from the entrepreneur’s savings.
12. According to the available evidence the small-scale industrial activity has been growing at a faster rate even than large-scale industries.
13. The incidents of infant mortality are also highest\(^\text{19}\).

14. Very few of small-scale industries have grown up to medium and large industries.

15. Small-scale industries activity is a beehive of entrepreneurship

16. Most of the Small-scale industries, especially chemical units have been polluting the environment.

17. Exploitation of natural resources in another characteristics of small-scale industries

18. Human resources is exploited (child and women in particular) instead of developing it.

19. Due to various constraints corruption, cheating is a common feature.

20. Small-scale industries are quality conscious

21. Invariable organization and management are very poor and negligible in many cases.

22. Financial discipline is very weak and rules an regulations are not adhered to

23. Urban units are overcrowded, unclean and with poor layout.

24. growing segment is the on-person firm.

3.10 Indian Experience

India is predominantly an agricultural country. A proper development Small-scale industry is for the healthy growth of our economy. The country can profit by Japan’s hold experience in this direction, spread over more than three decades.

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Village and small industries in their different aspects are an integral and continuing element, both in the economic structure and in the scheme of nation planning. The primary object of developing small industries in rural areas is to generate better employment opportunities, raise incomes and standards of living, and bring about the growth of a more balanced and integrated rural economy. The prevailing scarcity of capital for the promotion of large-scale industries and a plentiful supply of labor favour the development of Small-scale industries. Besides, the setting up of small but efficient units of production at suitable locations throughout the country would reduce the cost of transport involved in the haulage of raw materials or finished products of centralized industries. The now purchasing power of the mass of the people tends to restrict the market and the scale of production in certain spheres; and the needs of the people have therefore, to be met in several ways by production on a small, and often, on a semi-mechanised scale. Small-scale industries are also essential for providing subsidiary or alternate occupations and the utilisation of local raw material constitute a progressive and efficient decentralized sector which is closely integrated with agriculture on the one hand and, on the other, with large-scale industries. Small units exist and thrive even in highly industrialized countries. In Japan, for example, the small units serve as feeders to the larger ones. These small units operate alongside Small-scale industries either on their own or conjunction with larger units.

3.11 Role of Small-scale Industry in Planned Development

In a developing economy, it is the Small-scale industry that constitutes the backbone of its economic structure. It development creates vast
employment opportunities for the people effects decentralization of industries by the creation of industrial estates and makes possible a redistribution of economic power and income.

Till independence, cottage industries, village industries, rural industries or ago-based industries were considered to be small industries. The National Planning Communication set up in 1938 under the Chairmanship of Pandit Jawaharlal Nehru, constituted a panel to study this problem. With the dawn of the planned era in the country the Government has been following a policy of promotion as well as protection of the Small-scale industries sector; the protection would be gradually reduced as and when promotional activities begin to produce results.

The main objectives of the development of Small-scale industries are:
To create vast employment opportunities for the people; to effect decentralisation of industries by creating industrial entries; to effect a redistribution of economic power as well as income: and to raise the standard of living of the people. These objectives mainly follow the principles of the ideal goal of a Welfare State. The objectives in theory, aim are developing the country on the basis of the principles of social justice and social welfare.

3.12 Growth of Small-Scale Sector

The following table shows the growth of small scale sector over the years.
Table 3.1

Growth of Small-Scale Sector

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Total Working Enterprises (in Lakh)</th>
<th>Employment (in Lakh)</th>
<th>Market Value of Fixed Assets (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
</tr>
<tr>
<td>1.</td>
<td>2001-02</td>
<td>105.21</td>
<td>249.33</td>
<td>154,349.00</td>
</tr>
<tr>
<td>2.</td>
<td>2002-03</td>
<td>109.49</td>
<td>260.21</td>
<td>162,317.00</td>
</tr>
<tr>
<td>3.</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>170,219.00</td>
</tr>
<tr>
<td>4.</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>178,699.00</td>
</tr>
<tr>
<td>5.</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>188,113.00</td>
</tr>
<tr>
<td>6.</td>
<td>2006-07</td>
<td>361.76</td>
<td>805.23</td>
<td>868,543.79</td>
</tr>
<tr>
<td>7.</td>
<td>2007-08#</td>
<td>377.36</td>
<td>842.00</td>
<td>920,459.84</td>
</tr>
<tr>
<td>8.</td>
<td>2008-09#</td>
<td>393.70</td>
<td>880.84</td>
<td>977,114.72</td>
</tr>
<tr>
<td>9.</td>
<td>2009-10#</td>
<td>410.80</td>
<td>921.79</td>
<td>1,038,546.08</td>
</tr>
<tr>
<td>10.</td>
<td>2010-11#</td>
<td>428.73</td>
<td>965.15</td>
<td>1,105,934.09</td>
</tr>
<tr>
<td>11.</td>
<td>2011-12#</td>
<td>447.66</td>
<td>1,011.80</td>
<td>1,183,332.00</td>
</tr>
<tr>
<td>12.</td>
<td>2012-13#</td>
<td>467.56</td>
<td>1,061.52</td>
<td>1,269,338.02</td>
</tr>
</tbody>
</table>

◊ Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transport and storage & warehousing (except cold storage) for which data was extracted from Economic Census 2005, Central Statistics Office, MOSPI.

★ Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSMEs, unregistered sector.

# Projected.

3.13 Problems of Enterprises

The Small Scale Industries face many problems in which some of them are core. The problems may be either internal or external. It is difficult to identify and analyse the problems which come from external surroundings.

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Choice of an Idea</td>
<td>(i) Infrastructural</td>
</tr>
<tr>
<td>(ii) Feeble Structure</td>
<td>(a) Location</td>
</tr>
<tr>
<td>(iii) Faulty Planning</td>
<td>(b) Power</td>
</tr>
<tr>
<td>(iv) Poor Project Implementation</td>
<td>(c) Water</td>
</tr>
<tr>
<td>(v) Poor Management</td>
<td>(d) Post Office etc.</td>
</tr>
<tr>
<td>(vi) Poor Production</td>
<td>(e) Communication</td>
</tr>
<tr>
<td>(vii) Quality</td>
<td>(ii) Financial</td>
</tr>
<tr>
<td>(viii) Marketing</td>
<td>(a) Capital</td>
</tr>
<tr>
<td>(ix) Inadequate Finance</td>
<td>(b) Working Capital</td>
</tr>
<tr>
<td>(x) Labour Problems</td>
<td>(c) Long-term funds</td>
</tr>
<tr>
<td>(xi) Capacity Utilisation</td>
<td>(d) Recovery</td>
</tr>
<tr>
<td>(xii) Lack of vertical and horizontal</td>
<td>(iii) Marketing</td>
</tr>
<tr>
<td>integration</td>
<td>(iv) Taxation</td>
</tr>
<tr>
<td>(xiii) Inadequate training in skills</td>
<td>(v) Raw material</td>
</tr>
<tr>
<td>(xiv) Poor and Loose organization</td>
<td>(vi) Industrial &amp; Financial Regularities</td>
</tr>
<tr>
<td>(xv) Lack of Strategies</td>
<td>(vii) Inspections</td>
</tr>
<tr>
<td></td>
<td>(viii) Technology</td>
</tr>
<tr>
<td></td>
<td>(ix) Policy</td>
</tr>
<tr>
<td></td>
<td>(x) Competitive and Volatile environment</td>
</tr>
</tbody>
</table>
3.13.1 Teething Troubles

From the moment a small industrialist conceives the idea to start his own unit, he has to work hard against heavy odds. The first step viz, the preparation of a project report, calls for the collection of data on the marketability of the product chosen, the availability of raw materials, the manufacturing techniques involved the choice of machinery and location.

3.13.2 License

The next problem is to obtain the permission of, and license from, the Industries Department of the State, local bodies, etc. But despite the policy of the Government, petty officials are often unhelpful – they have other Ideas. A lot of time and energy are wasted persuading these officials to perform their duties. It is also true that the small in the small-scale sector does not know how to make an approach and avail itself of the various facilities announced by the Central and State Government. Alternatively, it is not in a position to communicate with the well organized, urbanized bureaucracy.

These are the major handicaps which hinder the growth of the small-scale sector in the country. If the production programme calls for imported machinery or raw materials, the small industrialist has the additional problem of obtaining suitable licenses and of going through import procedures which keep on changing frequently cannot of the changes in the Government’s policy; as a result people generally cannot understand them easily; and corruption takes deep roots in the economy. At almost every stage, the small entrepreneur
has to tip people; only the courageous and influential can face up to the corrupt and emerge successful.

3.13.3 Finance

Small units basically depend upon the assistances provided by the Central and State Governments. The initial investment of these small units comes mainly from within, most of them invest their own funds or borrowed funds (mainly from relatives, friend and profession lenders). Much less comes from banks and Government channels.

These small units are not in a position to offer the guarantee required by the banking sector. Even when small loans can be raised from Government agencies, the procedure is so cumbersome that most of the entrepreneurs, who are either illiterate or semiliterate, hesitate to make use of these facilities. And since the finance they acquire is on a small-scale, entrepreneurs prefer to put in their own rather than borrowed funds. For example, skilled persons, who become potential entrepreneurs of small industries in due course, have generally saved some money in the past while they were employed in other firms as wage workers.

Small-scale industrialists do not have sufficient funds of their own for fixed capital investment, nor can they obtain the necessary resources from institutional agencies if the latter are doubtful of the farmer’s ability to repay the loans in time. The shortage of funds makes it difficult for them the install modern machinery and tools and to maintain well organized and full-equipped factories. Moreover, they cannot buy and store good quality raw materials or
stock their finished products, pack their goods attractively, have and sales organization of their own or furnish security deposits, whenever necessary.

Tamil Nadu state is provided two state financial corporations with a view to help entrepreneurs as well as existing units with reasonable quantum of finance at affordable conditions. However, these State Finance Corporations were taking more than the allowed time to disburse the loans to the eligible small industries. Banks also are not quick enough in the disposal of loan applications. Their assistance is hardly available only for the working capital needs of small-scale units.

3.13.4 Location

Banks insist for larger liquidity and safety of resources. On their part, the small entrepreneurs have no knowledge of the availability of varied financial assistance from various sources. With proper education and training, the small entrepreneur may seek better financial assistance. The choice of location, and getting water and power connections, also call for a great deal of effort on his part. It is not easy to decide on location, for the choice involves consideration of the availability of infrastructural facilities, the cost and tenure of acquisition, the availability of labour and the proximity of markets.

3.13.5 Raw Materials

The shortage of the 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 in particularly disadvantageous when raw material
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 availability of raw materials has been a great problem in the study
area. Some of them are chronically in short supply, some are very scarce. There are great price variations. Manufacturers and suppliers very frequently
create artificial scarcities to increase the prices.

3.13.6 Technology

Technology also claims importance in case of many industries. The
growth of small-scale industries in India has not been very satisfactory, even
though the Industrial Policy of the country has specific objectives to help small
scale industries. One of the major handicaps of the small-scale sector has been
the absence of the latest technology which alone can ensure quality and high
rate of productivity. The small industrialist, therefore, should keep himself
abreast of developments in technology, so as to.

(i) Remain in the market

(ii) Improve the quality of his product

(iii) Lower the cost of production and

(iv) Pass on the benefit to the consumer

Unless he takes to this policy, he may soon find himself removed from
the 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 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 that he is development-oriented and is capable innovation.

3.13.7 Marketing

Marketing is the one of the major stumbling blocks for small-scale industries. The many problems which they face in marketing their products are enumerate below;

(i) Lack of standardization
(ii) Poor designing
(iii) Poor quality
(iv) Lack of quality control
(v) Lack of precision
(vi) Poor finishing
(vii) Poor bargaining power
(viii) Lack of service after sales
(ix) Unable to provide funds for advertisement
(x) Brand preference
(xii) Lack of knowledge of marketing
(xiii) Competition
(xiv) Ignorance of potential market
(xv) Unfamiliarity with export activities
As mentioned earlier, because of the weak financial base, a small industries is unable to spend a reasonable amount for marketing its products.

3.13.8 Recoveries

One of the most difficult 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.

3.13.9 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, keep changing from time to time. Labour is today is fully aware of its right. It has, therefore, to be handled with patience and understanding. Unfortunately, trade unionist politicalise the problems of labour, and at times even create a problem where there was none before. To product their vested interests, politicians often prevent a settlement of a dispute between labour and employers, and thus work against the interest of both.
3.13.10 Faulty Planning

The most important one is faulty planning and inadequate appraisal of projects. No proper viability studies, technical or economic, are carried out before units are sponsored.

The report of a study team of the State Bank of India (1975), which examined the difficulties and problems of a small sector, came to the conclusion that over 40 per cent of the sample units examined by it were started with feasibility studies or detailed project reports.

3.13.11 High Infant Mortality

A special problem for SSI is that it has a larger infant mortality. The 1972 census estimated that 35 per cent of all the small units were dead before they started. The current figure is bound to be of a similar if not of a much greater magnitude. Another consequence of this indiscriminate promotion without proper scrutiny is the spread of numerous malpractices in the name of the small sector.

The growth of small-scale industries in India was largely induced by the promotional policies of the Government since the beginning of the Third Five-Year Plan. A large number of units flourished under various incentive schemes. But this was followed, with certain lags, by high rates of failures or closures of these units.

Traditionally, the management of enterprises has been in the hands of the families of business communities, and the managerial talent was handed down the family ladder. It had been accepted that people from other
communities are incapable of taking up these responsibilities. There is some substance in this, for in a traditionally business family, the prospective manager was initiated into the responsibilities of his profession at an early age. However, this traditional practice has not been free from its own observations.

The functions of management lie in collection of relevant material and utilizing them to take quick decisions for the attainment of desired goals. Management is a skill which, like any other skill, can be acquired. The success of an industry is largely determined by a satisfactory management of finance, inventory, budgeting, marketing, accounting, and manpower.

Purposeful co-ordination and integration of such supporting institutions will go a long way in making these institutions a valuable resource that can go into the small industry, leading to its accelerated growth.

3.14 Performance of MSMEs in India

Micro, Small and Medium Enterprises (MSMEs) are an integral and important part of Indian industry and economy. During the pre-independence era, no emphasis was given to organized industrialization of the country. The historical background of India, the skill and craftsmanship present, and the availability of natural resources enabled individual endeavors with low capital investment possible. It can be measured in terms of MSMEs production, employment, export and so forth. It is presented on the following passages. Table 3.2 shows the performance of MSMEs in terms of number and units, investment, employment, production and export.
### Table 3.2

**Performance of MSMEs in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MSMEs (lakh numbers)</th>
<th>Fixed Investment (₹ Crore)</th>
<th>Production (₹ Crore)</th>
<th>Employment (lakh persons)</th>
<th>Exports (₹ Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>109.49</td>
<td>162317</td>
<td>314850</td>
<td>260.21</td>
<td>86013</td>
</tr>
<tr>
<td>2003-2004</td>
<td>113.95</td>
<td>170219</td>
<td>364547</td>
<td>271.42</td>
<td>97644</td>
</tr>
<tr>
<td>2004-2005</td>
<td>118.59</td>
<td>178699</td>
<td>429796</td>
<td>282.57</td>
<td>124417</td>
</tr>
<tr>
<td>2005-2006</td>
<td>123.42</td>
<td>188113</td>
<td>497842</td>
<td>294.91</td>
<td>150242</td>
</tr>
<tr>
<td>2006-2007</td>
<td>261.01</td>
<td>500758</td>
<td>709398</td>
<td>594.61</td>
<td>182538</td>
</tr>
<tr>
<td>2007-2008</td>
<td>272.79</td>
<td>558190</td>
<td>790759</td>
<td>626.34</td>
<td>202017</td>
</tr>
<tr>
<td>2008-2009</td>
<td>285.16</td>
<td>621753</td>
<td>880805</td>
<td>659.35</td>
<td>-</td>
</tr>
<tr>
<td>2009-2010</td>
<td>298.08</td>
<td>693835</td>
<td>982919</td>
<td>695.38</td>
<td>-</td>
</tr>
<tr>
<td>2010-2011</td>
<td>311.52</td>
<td>773487</td>
<td>1095758</td>
<td>732.17</td>
<td>-</td>
</tr>
<tr>
<td>Mean</td>
<td>210.44</td>
<td>427485.66</td>
<td>674074.88</td>
<td>490.7733</td>
<td>140478.50</td>
</tr>
<tr>
<td>SD</td>
<td>90.44</td>
<td>251631.12</td>
<td>284249.40</td>
<td>206.36</td>
<td>46282.98</td>
</tr>
</tbody>
</table>

**Source:** Annual Reports-2010-11. Ministry of Micro, Small and medium Enterprises

It is clear from table 3.2 that the total numbers of MSMEs have increased from 109.49 lakhs in 2002-03 to 311.52 lakhs in 2010-2011. The production in these industries have gone up from ₹ 314850 crores in 2002-03 ₹ 1095758 crores in 2010-2011. The numbers of persons employed in these industries have increased from 260.21 lakhs in 2002-03 to 732.17 lakhs in 2010-11. The exports from these industries have increased from ₹ 86013 crores.
in 2002-03 to Rs202017 crores in 2007-08. Total fixed investments of MSMEs have increased from 162317 crores in 2002-03 to 773487 crores in 2010-2011.

3.15 Performance of the Sector in North Eastern Region

The estimated number of MSME units in North-East, fixed investment, production and employment for the year 2008-09.

Table 3.3

Performance of MSMEs in North Eastern Regions

<table>
<thead>
<tr>
<th>Name of the state</th>
<th>No. of Units</th>
<th>Fixed Investment (₹ Crore)</th>
<th>Production (₹ Crore)</th>
<th>Employment (lakh persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sikkim</td>
<td>472</td>
<td>17.00</td>
<td>73.7</td>
<td>1828</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>1614</td>
<td>46.76</td>
<td>115.2</td>
<td>5060</td>
</tr>
<tr>
<td>Nagaland</td>
<td>18653</td>
<td>583.49</td>
<td>897</td>
<td>81608</td>
</tr>
<tr>
<td>Manipur</td>
<td>60625</td>
<td>529.53</td>
<td>1168.5</td>
<td>173663</td>
</tr>
<tr>
<td>Mizoram</td>
<td>14242</td>
<td>188.66</td>
<td>343.6</td>
<td>32984</td>
</tr>
<tr>
<td>Tripura</td>
<td>30772</td>
<td>423.61</td>
<td>765.4</td>
<td>70774</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>28851</td>
<td>224.07</td>
<td>799.8</td>
<td>87397</td>
</tr>
<tr>
<td>Assam</td>
<td>246980</td>
<td>1733.05</td>
<td>8155.1</td>
<td>556896</td>
</tr>
<tr>
<td>Total</td>
<td>402209</td>
<td>3746.17</td>
<td>12318.3</td>
<td>1010210</td>
</tr>
<tr>
<td>Mean</td>
<td>89379.77</td>
<td>832.48</td>
<td>2737.4</td>
<td>224491.11</td>
</tr>
<tr>
<td>SD</td>
<td>140036.05</td>
<td>1208.75</td>
<td>4392.29</td>
<td>340527.87</td>
</tr>
</tbody>
</table>

Source: Annual Reports-2008-09. Ministry of Micro, Small and Medium Enterprises

Table 3.3 shows that the number of Micro, Small and Medium Enterprises are high in the state of Assam and it was followed by Manipur, Tripura, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh and Sikkim. It is also clear they more than 50% of the MSMEs are in the state of Assam in the North Eastern regions.
3.16 Problems in MSMEs

Micro, Small and Medium Enterprises (MSMES) are often confronted with problems that are uncommon to the larger companies and multi-national corporations. These problems include the following:

3.16.1 Lack of IT Support

IT personnel are in high demand and are often attracted to bigger companies and MNCs. It is very difficult for MSMEs to attract good IT personnel. It is even more difficult to retain them. Moreover, good IT personnel are expensive and may not be affordable by most MSMEs.

3.16.2 Lack of IT Literacy

Many of the employees in SMEs started from the ground up after working with the company for many years. Some of them are often holding supervisory and managerial positions. These employees may not be IT literate and often have high resistance to the changes in the working process that they are comfortable with after many years.

3.16.3 Lack of Formal Procedure and Discipline

Most MSMEs do not have formal procedure or often these are not documented. Furthermore, there is tendency for these procedures to change frequently. This makes it difficult for third party and newcomer to understand the existing business practices and match them with the IT process.

3.16.4 Uneven IT Awareness and Management Skill

These uneven skill and efficiency among the managers often caused conflicts during the implementation phase in Small Scale Industries.
3.16.5 Lack of Financial Resources

MSME’s, financial resources are often limited. This often forces company to select a solution, which appear to be cheap initially. However, the hidden costs will start to emerge during implementation. This sometime causes the project to be abandoned or sometime sent the company into further financial crisis.

3.16.6 Lack of Human Resources

Implementations of some bigger scale IT project especially those that involve business process across different departments or require large amount of initial data entries require human resource during the implementation. Some MSMES are often in the stage of frequent fire fighting and shortage of manpower. This makes it very difficult for them to allocate time to carry out implementation. Furthermore, there is always a conflict between getting the daily routing work going and to do the "Extra" IT implementation.

3.16.7 Lack of Experience of Using Consultants

A good consultant often save time and effort, and help to prevent pitfalls during the IT projects. However, most MSMEs are lacked of experience in working with consultants. The lack of knowledge in the field of IT makes them difficult in identifying good consultant for the projects. They often feel that the consultant costs is too high and they can handle it with their own staff. If the
company has no staff that are experience and knowledgeable in the IT project, avoiding external help often costs more to the company eventually.\textsuperscript{21}

MSMEs need to adopt internationalisation strategies in tune with objectives and strategies and global supply chain management of transnational corporations (TNCS) or large companies. Some of the recent initiatives, key issues and best practices evolved worldwide to vitalize and internationalise MSMES, particularly from technology point of view have been discussed in this paper.

\textbf{3.17 Measures Taken By Government of India}

Ministry of Small Scale Industries is primarily responsible for promotion and development of MSMES in India, and has evolved several policies, institutional and support measures, spread all over the country, in order to enable MSMEs to meet their changing needs. Small Industries Development Bank of India (SIDBI) has developed various financing schemes. Ministry of Science and Technology (DST) has evolved several measures and programmes for technological assistance and development and transfer of technologies for MSMEs. Some of the economic ministries such as Ministry of Textiles, Department of Food Processing and Department of Handicrafts etc. have also recently announced initiatives for technical assistance in various firms.

Some of the measures and new initiatives to promote MSMEs include:

\textsuperscript{21} H.L. Nagaraja Murthy, "Problems Being Faced by SMEs in India (An Attempt to Study MSME Segment Minutely)", IndianFaculty.com: 14/04/2012
- MSME development fund
- A specialized stock exchange for MSMEs
- Encouragement for patenting and ISO Certification
- MSME venture capital fund,
- National Commission for Small Industries (informal sectors)
- MSME development bill
- Credit Rating Agency F
- Promoting special venture capital companies and risk financing companies for MSMEs
- Improve the working of credit guarantee and export promotion institutions
- Progressively reduce protection measures and simplify implementation policies and control mechanisms
- MSME Development Centres at SIDBI
- Considering liberalizing FDI in MSMEs and encouraging their linkages with TNCs and large companies
- Promoting industrial growth centres/clusters, EOUs, district industry centres, business incubators and business parks
- Market assistance and export promotion

3.17.1 Academic and R&D Organizations

Some of the engineering and technical institutions such as IITs, National Institutes of Technology and CSIR Research Laboratories, are also providing R&D and technology related support facilities and services to the MSMES
including training and skill development programs. However, access to these facilities are generally not easy, and often lack the business needs of entrepreneurs. There are very limited start-up enterprises based on technologies or intellectual property from academic and R&D institutions.

Ministry of Small Industries and Development Commissioner, have a wide network of technical, design, training, pro-type development, testing etc., facilities all over the country spread up to district levels. But, these facilities need to be modernized and tuned to emerging needs.

### 3.17.2 Foreign Tie Ups and FDI

Internationalization of MSMEs usually refers to the MSMEs engaged in international businesses, have developed cooperation, partnerships, linkages and networks with foreign companies and institutions. Imports and exports tend to enhance the efficiencies, capabilities, competitiveness and vision of MSMEs. FDI is considered to be an important channel for internationalization, besides catalyzing technology flows and investments.

Most countries are aiming at attracting larger FDI which poses challenges and provide opportunities to MSMEs. The domestic policies therefore need to be finely tuned to take full advantage of FDI and international aid/support measures or loans. However, the MSMES need to be growth oriented and forward looking, with innovative capacities, for internationalization.\(^\text{22}\)

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3.18 Problem of Small Scale industries

Micro, Small and Medium Enterprises (MSMES) in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, small industries faces are given below;

3.18.1 Problem of skilled manpower

The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

3.18.2 Inadequate credit assistance

Adequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.

3.18.3 Irregular supply of raw material

Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and
above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.

3.18.4 Absence of organised marketing

Another important problem faced by small-scale units is the absence of organised marketing system. In the absence of organised marketing, their products compare unfavourably with the quality of the product of large-scale units. They also fail to get adequate information about consumer’s choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

3.18.5 Lack of machinery and equipment

Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.

3.18.6 Absence of adequate infrastructure

Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absences of adequate infrastructure adversely affect the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.
3.18.7 Competition from large-scale units and imported articles

Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.

3.18.8 Financing Problems

Financing has always been a major problem for the small and medium industries in India. The MSMES mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions.

3.18.9 Marketing

Next to finance, marketing is the big problem area for small entrepreneurs. The survival of small entrepreneurs very much depends on sound marketing techniques. One of the most important tools in the hands of small entrepreneurs for promoting their sales is low prices coupled with credit to buyers, which give rise to number of problems at a later stage. Marketing as a profession has not yet developed in the SME sector. Professional agencies are not engaged by small entrepreneurs on account of paucity of funds. The concept of marketing is not known to the majority of small entrepreneurs. For majority, marketing means advertisement or personal contacts. There are many ad-hoc initiatives taken by the Government to promote marketing of products/services of small units but no concrete action plan has been chalked out or targets made.
3.18.10 Technological Upgradation

Modernisation, technological and quality upgradation have assumed great significance in the present day context. With the inflow of latest technology reducing the cost of production and the increasing competition from within and outside, the small scale sector will have to attach more importance and pay attention to the areas of technology upgradation and modernization. However, due to lack of information on the areas of technology upgradation, entrepreneurs who have plans for technical upgradation are not to go ahead.

3.18.11 Other problems

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and huge number of bogus concerns. Due to all these problems the development of small-scale industries could not reach a prestigious stage\(^{23}\).

3.18.12 Gradual withdrawal of Reservation Policy

Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms.

However, Several Expert Committees like Abid Hussain (1995), Shri T.S. Vijayaraghavan (1997), Confederation of Indian Industries (CII) (1997) etc concluded that reservation policy is no longer helpful for MSMES as MSME units with no reservation facility have performed better than those units with reservation support. Moreover many MSMES do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.

3.18.13 Mindset Problems

The mindset of the many MSME entrepreneurs has not yet changed. They still expect protection policies and preferential treatment for the MSMEs. Fortunately, this tendency is low in the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

3.18.14 Outflow of wealth

Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the MSMES. The MNCs use domestic wealth, infrastructure, and local unskilled workers at a lower cost and repatriate huge profits to their own countries.

3.18.15 More prone to global fluctuations

A well liberalized economy reacts more sharply with the changes in global market. The demand and supply would be determined by global fluctuations and not by the needs of the consumers.
3.18.16 Social welfare areas neglected

The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education etc which require huge investment but generate less and time taking return on investment, would be neglected.  

3.19 Measures Taken By Government of India

Ministry of Small Scale industries is primarily responsible for promotion and development of SMEs in India, and has evolved several policies, institutional and support measures, spread all over the country, in order to enable SMEs to meet their changing needs. Small Industries Development Bank of India (SIDBI) has developed various financing schemes. Ministry of Science and Technology (DST) has evolved several measures and programmes for technological assistance and development and transfer of technologies for SMEs. Some of the economic ministries such as Ministry of Textiles, Department of Food Processing and Department of Handicrafts etc. have also recently announced initiatives for technical assistance in various firms.

Some of the measures and new initiatives to promote MSMES include

- SME venture capital fund
- National Commission for Small Industries (informal sectors)

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• Credit Rating Agency
• Improve the working of credit guarantee and export promotion institutions
• Progressively reduce protection measures and simplify implementation policies and control mechanisms
• SME Development Centres at SIDBI and IIFT
• Considering liberalizing FDI in SMEs and encouraging their linkages with TNCs and large companies
• Promoting industrial growth centres/clusters, ECUs, district industry centres, business incubators and business parks
• Market assistance and export promotion
• National Small industries Corporation
• Small industries Development Organization.26

3.19.1 Steps Taken Recently

The Micro, Small and Medium Enterprises (MSMES) sector contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45% of the manufacturing output and 40% of total exports of the country. The sector is estimated to employ about 69 million persons in over 26 million units throughout the country.

There are over 6000 products ranging from traditional to high-tech items which are being manufactured by MSMES in their ranging from

26 Nagaraja Murthy, loc. cit.
traditional to high-tech items, which are being manufactured by MSMES in the country. It is well known that MSME sector provides maximum opportunities for both self employment and jobs outside agriculture sector. The inclusiveness of the sector is underlined by the fact that nearly 50% of the MSMEs are owned by disadvantaged groups of the society.

To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy.

A task force was constituted to identify issues that are inhibiting the economy development and growth of the MSME sector. Sequels to this about 80 recommendations were made to unshackle the Indian MSME sector. While most of the recommendations have already been implemented there are some specific issues related to policy and government support needs immediate attention.

3.20 Flow of credit from commercial banks to MSME sectors

The following table shows the flow of credit from commercial banks to
Table 3.4

Flow of credit from commercial banks to MSME sectors

<table>
<thead>
<tr>
<th>Year</th>
<th>Net bank Credit (In crores)</th>
<th>Annual Growth (percent)</th>
<th>Credit to MSME (In crores)</th>
<th>Annual Growth (percent)</th>
<th>MSME as percent of Net Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>467206</td>
<td>17.33</td>
<td>60141</td>
<td>5.43</td>
<td>12.86</td>
</tr>
<tr>
<td>2001-02</td>
<td>535063</td>
<td>14.56</td>
<td>67107</td>
<td>11.65</td>
<td>12.53</td>
</tr>
<tr>
<td>2002-03</td>
<td>668576</td>
<td>25.04</td>
<td>64707</td>
<td>(-)3.60</td>
<td>09.67</td>
</tr>
<tr>
<td>2003-04</td>
<td>763855</td>
<td>14.20</td>
<td>71209</td>
<td>10.04</td>
<td>09.32</td>
</tr>
<tr>
<td>2004-05</td>
<td>971809</td>
<td>27.22</td>
<td>83498</td>
<td>16.71</td>
<td>08.55</td>
</tr>
<tr>
<td>2005-06</td>
<td>1350467</td>
<td>38.96</td>
<td>101285</td>
<td>21.30</td>
<td>07.50</td>
</tr>
<tr>
<td>2006-07</td>
<td>1768376</td>
<td>30.95</td>
<td>127323</td>
<td>25.71</td>
<td>07.20</td>
</tr>
<tr>
<td>2007-08</td>
<td>1840853</td>
<td>04.09</td>
<td>213539</td>
<td>67.72</td>
<td>11.60</td>
</tr>
<tr>
<td>2008-09</td>
<td>2266611</td>
<td>23.13</td>
<td>256127</td>
<td>19.90</td>
<td>11.30</td>
</tr>
<tr>
<td>2009-10</td>
<td>2716507</td>
<td>19.85</td>
<td>364012</td>
<td>42.10</td>
<td>13.40</td>
</tr>
</tbody>
</table>

Source: Annual Report 2010-11 Govt. of India, Ministry of Micro, Small and Medium Enterprises

Table 3.4 shows that the annual growth rate in terms of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMES show fluctuating trend. In 2002-03, the annual growth rate of credit to MSMES showed a negative result. All the Scheduled banks offered credit to SSI sector to the tune of Rs 64707 crores which was less than that of the last year (2002-03) by Rs 400 crores. Another noteworthy year is 2007-08 which witnessed high annual growth rate in terms of credit to MSME Sector (67.7 percent). The annual growth rate of credit offered by Public Sector Banks in 2008 over 2007 is 47.4 percent, for Private Banks 257.1 percent and for foreign banks 67.7 percent. This abnormally high growth rate was due to re-classification of MSEs as per MSME Act, 2006. However, annual growth rate in terms of Net Bank Credit is extremely low (4.09 percent).
The annual growth rate of percentage of Net Bank Credit offered as credit to MSMES has not shown sufficient increase even after re-classification of MSEs as per MSME Act, 2006. The Scheduled banks do not consider the MSMEs preferred area of investment. Traditionally, banking sector considers Small industries a risky field of investment due to reasonably low growth rate of the small firms, firms following informal business practices, inability of the MSME entrepreneurs to maintain collateral securities, lack of creditworthiness, relatively high processing cost, and poor flow of information. Moreover, incidence of Non-Performing Assets (NPA) in Small and Medium Sector is about 15 percent compared to about 9 percent in large business houses.27

3.21 Prospects of the Small-Scale Industries in a Free Economy

The small-scale industries occupy a very important position in any economy. Traditionally, they produce certain specialised items over which they enjoy virtual monopoly because of the skill and expertise developed over the years. Many items produced in the small-scale sector are also used as raw materials in the large-scale industry. Thus, small-scale industries contribute to large-scale production in no small measure. In a controlled economy, the small-scale industries are protected from competition from the large-scale sector by means of subsidies, grants, monetary incentives from the government, reservation of certain items of production in the small-scale sector, and so on. In a free economy, however, the small-scale industrial sector is not insulated from competition from the large-scale sector for their survival and growth; they have to face competition from the large-scale sector with their own ingenuity.

and resources. For this purpose, they will have to take effective measures in the following areas.

3.21.1 Quality control

The products of large-scale industries are of high quality and precision. In a free economy, the products of the small-scale industry can compete with those of the large-scale sector only if the high quality is maintained. To meet the competition from the large-scale sector, small-scale industries should get a good share of the export market where high-quality products are essential. It would thus be necessary for small-scale industrial units to introduce quality control measures. If necessary, they can enlist the assistance of reputed outside agencies in this regard. In a competitive environment where low-cost quality output is necessary, the choice of technology assumes great importance. In a free economy, small-scale units would have to select such technology from the available alternatives which would generate cost-efficient and high-quality optimal output. In order to ensure this, small-scale entrepreneurs should preferably have a technical background or, at least, an understanding of the technical processes involved in production.

3.21.2 Marketing Arrangements

Many small-scale units have perished because of their inability to sell what they produced. This happened because of lack of proper marketing arrangements. In a free economy, inadequate marketing arrangements would only accelerate the downfall of small-scale units, as they would have to counter competition from the large-scale sector, which enjoys a ready market for its products. The small-scale units need to conduct systematic and continuous
market research and arrange to tie up with prospective buyers in order that their products may be readily sold.

3.21.3 Advertisement

The products of the large-scale sector are widely advertised on TV, radio and newspapers and are well known. Since small-scale industrial units suffer from resource inadequacy, most of them cannot advertise their products on the mass media. As a result, the products of the small-scale units remain largely unfamiliar to the public and the units find it very difficult to attain their sales goals. But in a free economy, where the small-scale units will have to thrive by competing with the large-scale sector, the former must provide adequate provisions for publicity for their products. Some funds need to be set aside for this purpose. Although initially the profits may be low, such publicity expenditure will serve the cause of future profitability.

3.21.4 Recovery of Receivables

The funds of many small-scale industrial units are blocked in receivables. As a result, recycling of funds is affected and production suffers. In a competitive environment, it must be ensured that receivable dues are realised without delay. The small-scale units will have to make special effort to collect their dues for their growth. They may have to utilise the services of factoring companies for the purpose.

3.21.5 Professionalism in Management

Many small-scale industrial units have suffered an account of proprietary management. Barring very tiny and small units, management of small-scale industries has become complex. Hence, small-scale industrial units
must be managed by professional managers in order to compete successfully with the large-scale sector, which is professionally managed.

3.21.6 Inventory Control

Proper inventory control is an essential prerequisite for optimum production of an industrial unit. Yet, a large number of small-scale units remain unaware of this requirement. As a result, they have to remain content with a sub-optimal level of production that affects their profitability adversely. It is, therefore, imperative that small-scale units familiarise themselves with inventory control techniques and introduce them at work, particularly in the context of competition in a free economy from the large-scale sector where modern inventory control techniques are widely adopted. Many small-scale units have become sick from neglecting the above-mentioned areas. The other causes of sickness of small-scale industries are mainly as given below.

- Diversion of funds
- Dissension among partners
- Shortage of power
- Technological obsolescence
- Overdependence on purchases by government.²⁸