

Chapter - VIII

PROBLEMS OF THE SSI UNITS IN THE STUDY AREA

- An Analysis of the Sample Study.

The Industrial policies have given special attention for the promotion of SSIs in India. Even the New Economic Policy is very cautious in protecting SSIs from the competition of Multinational Corporations. Since, 1991, doubts have been raised in many quarters, whether the SSIs will continue to enjoy and perform as it did in the previous years. However, the results of All India survey of small industries show the poor progress made by this sector at the All India level. The second All India census shows that there is a growth of units from 9.75 lakhs in 1971-72 to 20.5 lakhs in 1991-92. At the same time, the fixed investment, the employment per unit, the value of output per employee are comparatively lower than that of the large scale industries. Another revelation has been that 31% of the registered units were closed between 1987 and 1992 due to faulty planning and inadequate appraisal of projects.

The problems faced by the SSI units at district level have been categorised under four major categories viz., economic problems, financial problems, social problems and problems in availing incentives.

Economic Problems

The economic problems of the SSI units in this district are shortage of raw materials, poor transportation, problems in power, labour unrest, poor marketing, scarcity of water, poor communications, higher taxation, technological problems, and obsolete products, etc...

Raw materials

The Small Industries have to compete with large scale industries in getting the required quantity as well as quality of the raw material. Further, the raw materials can be classified as imported and indigeneous. The cost of the raw material, differs between the large and the small scale industries.

In the sample survey conducted at Thanjavur district, out of 160 units under 17 categories (types) 92 units i.e. 55% have reported existence of the raw material problem. The raw material problem is dominant in the case of food, metal, textiles, and chemical industries. In the case of textiles, non-availability of specified quality of yarn, and fluctuations in the yarn price is the major problems. In the case of metal industries there are no distributing agency appointed by the government for the distribution of required materials. In the case of chemical industries, the poor quality is the major problem. One of the major problems faced by the SSI units, is the containerisation of the imported materials. Many units are not in a position to import one container at a time for their requirement. Many of the units are not in a position to appoint or avail secreterial assistance and therefore, are not in a position to follow the procedures stipulated by the government. Because among the 92 units facing the problem of raw materials, 37% of the units procure their raw materials from outside the district and 63% are getting from within the district.

Table 8.1 Problem of Raw Material (Organisationwise)

Sl. No.	Organisation	No. of Units	Percentage
1.	Sole Proprietorship	56	60.8
2.	Partnership	32	34.8
3.	Private Limited Company	04	4.4
	Total	92	100.0

Nature of the problem of the raw material differs according to form of organisation. The raw material problem is insignificant in the case of private limited companies since the secretarial assistance and finance are not major constraints. Among partnership units, 35% are facing this problem. The problem is high in the case of sole proprietorship.

Transport

The major form of transport in this district is road transport. This district is not having any port facility for sea transport. There are also no air strips in the study area. In the surface transport, with regard to the railways, there is only meter gauge. Hence, the industry has to solely depend on the road transport both for getting the raw material and despatch the finished goods to the market.

Table 8.2 Problem of Transport (Organisationwise)

Sl. No.	Organisation	No. of Units	Percentage
1.	Sole Proprietorship	18	50
2.	Partnership	16	45
3.	Private Limited Company	2	05
	Total	36	100

A total number of 36 units have reported problems in transport out of a total of 160 units. Among the units facing this problem, 50% of the units are proprietorship concerns about 45% of the units are partnership concern and 5% are the pvt. limited companies. In the transport of raw material, the units are facing problem on account of the mode of transport and the cost of transport. Sixty percent of sample units which are having localised source of raw material are not facing much problem. This problem is dominant in the case of rubber, chemicals, plastics and metal industries.

Power

Power is required for processing, finishing and packing of the products. There are two types of power consumers - High Tension power consumers and Low Tension Power Consumers. Except in the case of rice mills with higher capacity and chemical plants, all others are only low tension power consumers.

With regard to the nature of the units, again they may be classified as continuous processing units which continue their operation without break for days together and units working on shift system. In the study area, the units are largely low tension power consumers and working on shift basis. Of the 160 units reported to the survey 95 units (59.38%) are facing shortage of power.

Table 8.3 Problem of Power (Organisationwise)

Sl. No.	Organisation	No. of Units	Percentage
1.	Sole Proprietorship	40	42.10
2.	Partnership	52	54.74
3.	Private Limited Company	03	03.16
	Total	85	100.00

The problem is dominant in partnership concern which account 54.74% whereas the private limited companies account for 3.16% only.

Labour Problem

The district taken for study consists of mainly backward taluks with agriculture being the main occupation. Small industries being labour intensive, are expected to play a pivotal role in the promotion of the employment. The cost of labour has to be studied along with the productivity of labour. At the national level the net value added per labour in SSIs is Rs. 27.99 lakhs as per the Second

All India Census and the net value added per labour in the district is only Rs. 0.18 lakhs. It only shows the poor productivity of labour in the study area.

The labour in the study units have been classified into five categories. Among them the skilled workers have the capacity of doing a high degree of processing work independently. But the SSI units in the district are largely employing unskilled workers who lack the capacity to work independently.

Table 8.4 Problem of Labour (Organisationwise)

Organisation / Nature of	Unskilled Worker	Semi Skilled	Skilled	Supervision	Family	Total
1. Sole Proprietor	1176	882	588	196	196	3038
2. Partnership	840	448	445	225	113	2071
3. Pvt. Ltd.	109	85	83	25	-	302
Total	2125	1415	1116	446	309	5411

It can be inferred from the table 8.4 that unskilled are dominant and if unskilled and semi-skilled are put together, they comprise 70% of the total number of persons employed in the sample units.

Another reason for low productivity is labour absenteeism. This is very common in the rural areas and nearer to town areas. Normally, these units

provide training to the unskilled agricultural labourers. When the agricultural operations are in full swing, the unskilled switch over to agricultural operations since they are paid higher wages. The payment is also both in cash and in kind. Another incentive is, that wage is productivity linked in agriculture. Because of these attractions, many workers in the rural areas do not turn-up for the regular work in the industry. Many units because of the unattractive wage rates face the problem of absenteeism during harvest season. Absenteeism is also found during festivals.

Of the total 160 units, only 22 units reported labour problems. Of them 16 are proprietary concerns and the remaining 6 are partnership concerns. No unit has reported the problem of labour in the category of private limited concerns.

Marketing

Marketing is one of the significant factors responsible for the success and the growth of any concern. Though the government has reserved certain items of the purchase from SSI units, about 114 units or 71% of the sample units have reported lack of demand for the product. The products are sold to large scale producers, small scale producers, traders, consumers and government departments. Only 7% is being sold to government departments. Twenty three per cent of the total value of product is sold to the consumer directly, 33% to traders and 37% to large scale and small scale producers.

Marketing problem is dominant in the case of partnership and proprietorship concerns. As more than one-third of the value of the product is sold to manufacturers and another one-third being sold to traders, the units are not in a position to command higher price for their products.

Poor profit margin and low price are responsible for poor sales promotion measures. The units located in the interior area in the district are not able to know the price trend prevailing in other areas of the state. Selling cost is more or less absent as the units are not spending for promoting sales of their products in other areas of the state.

Table 8:5 Problems of Marketing (Organisationwise)

	<i>Organisation</i>	<i>Numbar of Units</i>	<i>Percentage</i>
1.	Sole Properitorship	72	63.16
2.	Partnership	40	35.08
3.	Pvt.Limited Companies	02	1.76
	Total	114	100.00

Infrastructure

An industrial estate is a form of infrastructure with laid-out roads, provision of drinking water, water for processing, communication

facilities, service facilities from the banks, insurance and training facilities. In the study area there are only three estates maintained by SIDCO (TIDCO). These industrial estates are located far away from the town, e.g., the industrial estate at Kumbakonam is at eight Kms. away from the town, the Nanchikottai estate of Thanjavur is 6 kms away from the town. Both the estates don't have banks. Post offices, hospitals and educational facilities as well as creches for the workers' children. This has affected the working of the units in the industrial estate. The units are getting the power supply from the rural electricity board which gives priority in power supply only to agriculture.

In the case of SSI units located in the areas, other than industrial estates do not face infrastructural problems.

Finance

The financial problem is two-fold, availability and cost. It is not a peculiar problem of the SSI; but a problem also faced by even large scale industry. The difference is only in the dimension. Finance is required for fixed assets and for working capital. In the sample study 67 units or 75% of the total have made use of own capital, towards fixed assets and another 93 units have made use for financial institutions.

Table 8:6 Financial Assistance (sourcewise)

SI No	Source	No of Units	Percentage
1.	Commercial Banks	64	69.0
2.	State Financial Corporations	15	16.0
3.	National Financial Institutions	7	7.5
4.	Friends & Relatives	7	7.5
Total		93	100.0

Commercial banks have helped 64 units financial institutions have helped to 22 units and the friends and relatives have helped 7 units of the major source of finance.

Table 8:7 Incidence of financial problems (Units)

	Degree	Repayment Period	Duration of Loan Sanction	Formalities Adopted
1.	High	33	73	65
2.	Normal	37	12	17
3.	Low	23	08	11
Total		93	93	93

From the table 8.7 one can understand that the formalities in getting the loan sanctioned has been reported high by the majority of units. There is also delay in the sanctioning of the loan. The repayment period is not stated as a major problem by the units.

There is a general dissatisfaction with the standards of service provided by the bankers. According to the SBI study of SSI units, there is an inordinate delay in the sanctioning of the credit. The units are in a need of loans in the form of cash credits or over drafts. The banks are sanctioning these loans only against collateral securities. The units are also required to provide monthly financial statements. Many units, particularly the proprietary concerns are not in a position to provide these statements. When the units are in a need of bank assistance for expansion or modernisation they are not in a position to provide the project report and even if they are submitted they are found to be defective as per the project appraisal norm followed by the commercial banks.

Coming to the cost of capital, during the period of the study the commercial banks charged 18% the indigeneus banks 36% and the friends & relation 24% of interest. The National Small Industries Corporation charged 16% plus the service charge of 2% towards the processing of the application. Compared this the large scale industries are able to tap the required finance at a lower cost from the mutual funds, UTI and IDBI at an average rate of 14%. They have also secured deposit from the public of an interest rate ranging from 12 to 14%. Further they

could meet the fixed capital requirements by issue of share certificates on which dividend value is declared depending upon the profits earned.

The main objective of the financial incentives is to reduce the financial constraints of the units in backward region. The fiscal incentives are available only towards purchase of machinery and generator. In other words, they are non-recurring in nature. There is no assistance from the government towards the working capital requirements. Recently, the government has introduced the Sales Tax Deffered Scheme, Under this, a small scale unit can make use of the sales tax due for the period of five years without remitting it. It will be considered as a loan without any interest. The repayment commences on the sixth year and extend upto ten years. Though the scheme is a good gesture on the part of the government, yet the number of units which have availed the scheme are low, only 5 units have availed this facility. The reasons are

1. It is applicable only to SSI units with a permanent registration.
2. It is available only to the new units.
3. The scheme was introduced in the district only in the year 1990.
4. The maximum loan that can be availed is fixed on the basis of the fixed assets value.
5. The delay in sanction.
6. There is also a constraint that the amount realised from this depends upon the volume of sales and the rate of the sales tax.
7. Non-awareness on the part of the units is another reason for poor utilisation.

Social Problems

One of the main social problems is lack of entrepreneurship in the district. Since the main occupation is agriculture and that being the traditional occupation, People are not willing to come forward to start industries. They feel that they are incompetent and are not ready to take risk in venturing into anything new. Innovations is completely absent and invention cannot be thought of in this district. The intelligent and the educated migrate to the nearby cities and go abroad in search of job which they feel a secured one. Those who come forward to start industries are not given the encouragements by the friends and relatives. Women entrepreneurship is also insignificant.

The sample study has revealed that poor public co-operation, lack of housing, lack of school facilities and health problems are the social problems faced by them. There are no political problems faced by the these units as per sample survey.

Conclusion

As has been mentioned earlier the district small scale industries are not an exception to the problems faced at the state and national level. The study has sorted out the problems as well as diagnose the causes and the factors responsible. The problems cannot be solved within a short period. They are deep rooted and require policy changes at the institutional and governmental level.

Chapter - VIII

Page No	Paragraph	Line	As it is	As it should be
142	First	I	continous	continuous
140			Table 8.1 Source - Primary data	
141			Table 8.2 Source - Primary data	
142			Table 8.3 Source - Primary data	
143			Table 8.4 Source - Primary data	
144	Third	v	consrmers	consumers
145			Table 8.5 Source - Primary data	
146	Second	v	made use for	made use of
147			Table 8.6 and 8.7 Source - Primary data	
148	Second	vII	are in a need	are in need
148	Third	II	and relation	and relatives
		IV	compared this	compared to this
150	First	v	The prospects of "Innovations is completely absent and invention can not be thought of in this district" since it is rural oriented and agriculatural based.	