CHAPTER - 5

PROBLEMS AND PROSPECTS

5.1 Introduction

The small scale industrial (SSI) sector is a vital segment of India’s industrial sector. It plays a crucial role in the development of the economy of our country. It contributes significantly to Indian’s Gross Domestic Product and Export earnings besides fulfilling the objectives including that of providing employment opportunities to the population across the country. The SSI sector covers a wide spectrum of industries categorized under (a) small scale industrial undertakings, (b) ancillary industrial undertakings (ANC), (c) export oriented units (EOUs), (d) tiny enterprises (TINY), (e) small-scale service enterprises (SSSEs), (f) small-scale service business (Industry Related) enterprises (SSBEs), (g) artisans, village and cottage industries, and (h) women entrepreneurs’ enterprises, i.e., a small scale unit where one or more women entrepreneurs have not less than 51 percent financial holding\(^1\).

The Bank’s SME policy is based on the broad guidelines of Government of India as per the MSMED Act, 2006, which came into force w.e.f. 2\(^{nd}\) October, 2006.

Definition of SMEs

SME sector comprises, Micro Enterprise, Small Enterprise and Medium Enterprises Manufacturing and Service Segments.
<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>The investment in plant and machinery (original cost) does not exceed Rs. 25 lakhs</td>
<td>The investment in equipment does not exceed Rs. 10 Lakhs</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>Investment in plant and machinery (original cost) is more than Rs. 25 Lakhs but does not exceed Rs. 500 lakhs</td>
<td>The investment in equipment more than Rs. 10 Lakhs but does not exceed Rs. 200 Lakhs</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>Investment in plant and machinery (original cost) is more than Rs. 500 lakhs but does not exceed Rs. 1000 lakhs</td>
<td>The investment in equipment is more than Rs. 200 Lakhs but does not exceed Rs. 500 Lakhs</td>
</tr>
</tbody>
</table>

a) Enterprise means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacturing or production of goods, in any manner pertaining to any industry specified in the first schedule to the Industries in (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services.

b) In calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items as may be specified by notification shall be excluded.

c) The word equipment is defined as “All instruments,
office machines and such other electro mechanical or electronic appliances that are directly related to the service rendered but excluding furniture, fittings and other items not so related.”

The above definitions are in place of the erstwhile definitions of SSI and Medium Enterprises (SME Sector).

The services segment includes all service activity excluding retail and wholesale trading. An illustrative list of services is furnished below. The list is not exhaustive.

Restaurants, clinics, diagnostic centres, cybercafé, Xerox centres, beauty parlour, crèche, studio, courier service, logistics, ticketing, centering service, repair/ service centres (electrical and electronic) ITES, medical transcription etc.²

The Reserve Bank of India has given the status of priority sector to SSI lending by banks and various guidelines have been issued in this regard from time to time. But some problems are prevalent which disturb the growth of small scale and cottage industries. A lot of internal and external factors have put considerable pressure on the performance of the SSIs, resulting in a number of them becoming sick. The sickness in SSI sector is showing and increasing trend and a large number of SSI units are being identified as sick.

It is the time to look into the operative problems which the entrepreneurs have to contend with, the problems relate to such aspects, are finance and machinery, marketing and sales, raw materials and availability of skilled labour etc.

“To conclude it would suffice to state here that an overwhelming majority of entrepreneurs donot have problems
pertaining to availability of machines, raw materials, consumption of their manufactured goods in the market and availability of skilled personnel. Although a substantial percentage of them are in need of financial resources, nevertheless they are busy pursuing their enterprises.”

The problems can, no doubt be covered under some broad headings like problem of finance, marketing infrastructure, technology etc.

5.2 General Problems of Small Scale Industries (SSIs):

5.2.1 Problem of Finance:

Finance is an important input of production, distribution and development. But considering the key role, finance plays in accelerating the process of small scale industries development, the total amount loan sanctioned to it forms a very significant part of the total loan to Indian industry because of inadequate credit of the viability of the unit is affected greatly and it results in their sickness and ultimate closure. The flow of credit to the small scale sector is affected because of “a weak financial base, which eventually prompts the Entrepreneurs to bring in funds by way of loan rather than capital, improper maintenance of books of account, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institution etc., the administrative cost of lending to small borrowers, high mortality rate or sickness amongst the SSI units, the concessional interest rate does not motivate the financial institutions to invest in small scale units".

180
5.2.2 Problem of Marketing

Marketing is the most essential factor for the survival and growth of firms. It is the place where goods and services are bought and sold. In India, inspite of a large domestic market, marketing remains a problem area for the small scale sectors. Marketing has been identified as an important aspect affecting small-scale industries performance. Besides finance, marketing is the key element which, if not pragmatically assessed leads to the closure of the units.

The major problem of marketing in the Indian small scale sectors are “product quality, service to customers, cost effectiveness, consistency and reliability adherence to delivery schedules, lack of proper market information and the mindset of entrepreneurs.5”

Moreover, entrepreneurs are facing critical problems at the time of planning for an investment due to unawareness of proper planning, lack of knowledge of market survey, selection of appropriate type of plant and machinery, etc. Also some units in the small-scale sectors are fully dependent on government purchase.

5.2.3. Problem of Infrastructure:

One of the most important components of industrial development is infrastructure. Small scale units are being constrained by inadequate physical infrastructure in which most severe constraint is power. In India many states have a problem of power which affects the growth of SSIs.

Similarly, problem of transportation, communication and infrastructure hinder the growth of SSIs.
5.2.4. Problem of Management

The inefficient management is quite inherent in the SSI because in most of the cases the entrepreneur looks after various causes ranging from accounting to marketing as well as production. There is no division of labour. Most of the industrial units fall sick because of poor management and also dissention within management.

5.2.5. Problem of Technology:

For small-scale sector units, technology is also an area of challenge. Inadequate attention to technology up-gradation has acted as a hindrance on the way of modernization of SSIs factors. Most of the units are still carrying on with obsolete technology.

The present barriers for technological up-gradation are:

- There is little motivation among small-scale units or entrepreneurs to create in house research development cells.
- Aspiring entrepreneurs often do not pay attention to including levels of communication through faster technological growth.
- Funding institutions often fail to provide credit support to technological innovation.
- Unwillingness to change product lines or bring changes in product dimension with the help of technical support and faster technological growth to meet the changing market demand.
- There is at present, no effective mechanism for helping
the small scale sector to forecast technological change which is vital for economizing the use of productive resources like the raw materials, man power and core technological application.

**5.2.6. Other Problems:**

In addition to these problems other problems may be delayed payment by the large scale units to SSIs, problem of raw material, i.e., inadequate irregular supply of raw material, lack of organized market channels, unorganized nature of operations, imperfect knowledge of market operations, problem of sickness, inadequate data base for the small scale sector, burden of local taxes, competition from large scale units, non-availability of cheap power etc. SO, these are some of the problems, which directly affect the growth and development of SSIs

**5.3. Problems specific to Aligarh District**

**5.3.1. Inadequate Finance and Credit:**

Lack of finance and credit is the vital problem for the development of small-scale industries in Aligarh district. The position of cottage and village industries is even worse.

In Aligarh district, problem of finance is a major problem for the development of SSI units because the banks and the financial institutions both are unable to meet the long requirement of the small units. So, this indirectly retards their growth.

**5.3.2. Problem of Marketing**

The small scale and cottage industries continue to face a number of problems in the field of marketing. In case of
Aligarh district, marketing is a severe problem for some SSIs, because they do not have adequate knowledge about the active market. And most of the small unit are unable to take their product in the active market.

5.3.3. Problem of Power:

One of the major problem faced by the SSIs of Aligarh district is the problem of power. So the most sever constraint is power. At reasonable rate, capacity generation is impossible for small units.

Therefore, they depend on State Electricity Board (SEB) for meeting their requirement which do not supply adequate power to the small units. Many SSIs of Aligarh district are forced to make private deal with electricity official due to rampant corruption.

5.3.4 Problem of Management:

Management problem is one of the most common problem found in every SSI unit of Aligarh district. This is because entrepreneur is the whole and sole and there is no division of labour. And due to this problem, it directly effects the development of SSIs.

5.3.5. High Cost of Production:

In Aligarh district, cost of production is high due to obsolete technology used in the production process.

5.3.6. Problem of Raw Material:

The problem of raw material is one of the major problem for the majority of small-scale units. All the things that are required for manufacturing process are not easily available in
the state, therefore, this hampers the development of SSIs.

5.3.7. Lack of Skilled Personnel:

Sometimes lack of skilled personnel creates the problem for the development of SSIs. In Aligarh district most of the personnel who are indulged in the production process are unskilled.

5.3.8. Problem of Increasing competition:

Small-scale in Aligarh district faces increasing competition because of cheap products brought by the wholesaler from other parts of the country.

5.3.9. Underutilization of Capacity:

According to the report of Canara Bank on the All India Census of small scale industries, it shows substantial underutilization of capacity in small-scale industries which is a grave problem.

5.3.10 No research and Development facilities:

In case of Aligarh district, due to financial constraints in SSIs, there is no research and development facilities. Therefore, innovation is usually not there in the SSIs.

5.3.11 Improper assistance as well as guidance from government and other organizations.

SSIs do not get proper assistance as well as guidance from the government and other organization due to their indifferent attitude towards the SSIs sectors in U.P.

5.3.12. Child Labour:

Due to lack of education and over population most of the poor families surrender their children’s childhood to the
darkness of SSIs. Child labour means cheap labour, the young even the very young are most employable. Child labour is a prominent feature of the SSIs of Aligarh district. More than 50,000 children do polishing and packing job.

5.3.13. Problem of registration:
One of the most important problem of SSI is related to registration. A small-scale industry, after getting the approval of the Industries Department for establishment, is granted a temporary license.

Permanent registration is granted only after the unit launched, begins it production. But, the SSIs are not granted permanent registration even after one or two years of production. As a result, they are unable to sell their goods outside the state and avail the benefit of concessional facilities.

5.3.14 Problem of Standardization:
Those industrial units, which are engaged in the manufacture of plastic, polythene, textile goods, hosiery, medicine goods etc. face the problem of standardization. As a result of lack of this facility in Aligarh district, they are unable to market their products outside the state of U.P.

Moreover entrepreneurs are facing critical problems at the time of planning for investment due to awareness of proper planning, lack of knowledge of market survey, selection of appropriate type of plant and machineries etc.

The government from time to time has adopted various schemes through institutional sources by providing marketing assistance to lessen these problems. Inspite of
these, the situation with respect to finance, marketing, and infrastructure etc. problems do not seem to have disappeared.

5.4 Future Prospects of Small Scale Industries in India:
The number of units in SSI sector is estimated to have increased to 123.42 lakh units at the end of March 2006 as compared to 118.59 lakh units at the end of March 2005, recording an increase of 4.83 lakh units during 2005-06.

Employment in the sector is estimated at the level of 2941.91 lakh at the end of March 2006, indicating an addition of 12 lakh person to the sector’s aggregate employment of 289.91 lakh as at the end of March 2005. Similarly, export from SSI sector has also increased. During last four to five years we have seen a lot of growth and development in SSI sector. Therefore, if we discuss about the future prospect of SSI sector, definite has been shown. Government of India announces various schemes and has taken various steps for the development of SSIs.

- Honourable Union Finance Minister has launched rating agency in the year 2005 i.e. the SME Rating Agency of India Ltd. (SMERA) to provide rating that are comprehensive, transparent and reliable and which would enable the rated units to borrow at competitive rate of interest.

- The Industrial Development Banks and Infrastructure leasing and Financial Service Limited (IL & FS) have joined hands with a view to address the existing gap in the infrastructure facilities for the SME units.

- The government of India has set up varies agencies and
provides services for the development of SSIs like the Khadi and Village Industries Commission, All India Handloom and Handicraft Board DICs, NSICs etc. These agencies provide good concession like those in the field of excise duties on their products.

- The Government also helps for skill formation and technological up-gradation, the government provides finance to SSIs through its various organization.

Small scale sector has played a significant role in the development of the country during the past 50 years by addressing multidimensional issues of entrepreneurship, employment, industrialization, regional imbalances and export competitiveness. Government has laid down stress on technological up-gradation, modernization, infrastructural arrangements including connectivity and technological transfer for the small scale industries.

With the development and growth of the economy, the importance of SMEs is going further up in terms of creation of employment and balanced regional growth. It would also act as a catalyst for further industrial development in view of the forward and backward linkages.

With the support from various agencies national as well as international, the Kaleidoscope of the sector is bound to change for the better. After independence, various industrial policies were adopted from time to time for the rapid industrial development of the state. But these polices were not much successful. Therefore, some years back government introduced New Industrial Policy of the state i.e., Industrial Policy Reduction, 1997 with a view to create a strong
industrial base and employment opportunities. The new industrial policy is to give special attention to the following areas in the process of industrialization:

- Development of local skill and entrepreneurial abilities
- Development of women entrepreneurs.
- Creation of maximum employment opportunities for local people.
- Development of food processing industry
- Growth of export oriented units.
- Promotion of rural non-farm sector,
- Balanced regional development within the state giving special attention to less developed areas
- Revival of sick units
- Development and promotion of village and small-scale services and business enterprises.
- Establishment of medium and large scale industries in public, private, joint and assisted sector to create an industrial base, offering large scale opportunities in multi directions through backward and forward linkages.

These efforts are expected to provide necessary steps for pushing up industrial growth of the state to a considerable extent in the near future.

5.5. Future prospects of small-scale Industries in Aligarh District

Aligarh is a well known industrial district in Uttar Pradesh.
The district has made a significant headway in industrial development and has earned a name in metal works. Basically, Aligarh is famous for 'locks. There are more than 7134 small scale units registered under Indian factories Act 1948. The industries include manufacturing of building, fitting materials, electrical equipment, light engineering, carpets and other metal products. The Industrial Policy of the government is to emphasize and develop small and tiny industrial units particularly in rural areas. But the district is still lagging behind many other states/districts as far as industrial development is concerned. With the onset of economic reforms the focus has broadly shifted to these parts of the country to bear the fruits of industrialization. So, small-scale industries will have to play a significant role in the industrial development of the district. Though the Industrial Policy of 1991 was not much successful, the new industrial policy was initiated with a promise for adopting a smooth and rapid industrialization in the state.

The new industrial policies introduced by both central and state government, the future prospects of SSIs in U.P. seems to be quite bright. The central government has also made provision for tax concession to newly developed industries in a backward state like U.P. which has brightened the scope for the promotion and development of SSI of Aligarh district.

The government of India also announces various incentives to newly developed small units. Through the Pradhan Mantri Rozgar Yojana (PMRY), the government of India provides various types of help to poor people to establish an industrial unit in a district. Recently State Government has also made
special provision for financial support, data bank for the small scale industries of the state which has brightened the prospects of the development of SSIs in U.P.

Thus in view of the current economic reforms, the prospect of SSIs is quite high. But in the ultimate analysis many more things also need to be improved like law and order situation, finance problem, marketing problem, etc, which will create conducive environment for the industrial development of Aligarh. Moreover, SSIs should be promoted and based on locally available resources for which local entrepreneurs should come forward and participate actively in the industrialization process of Aligarh. Finally, it is observed that in view of the current situation prevailing in Aligarh the current economic reforms has not created much impact in the process of industrialization of the district. But keeping a positive frame of mind and the prospects of SSIs are very bright, provided an investment friendly climate is created in Aligarh.

5.6 Problems faced by the Banks in financing Small-Scale and Cottage Industries of Aligarh District.

5.6.1. Small Scale Industries:

Rural and Cottage Industries:

The following problems were identified under Rural and cottage Industries:

a) Loan sanctioning powers vary from bank to bank should be uniform and adequate.

b) Entrepreneurs with adequate technical skill be recommended to avoid large rejection by banks.
c) In certain activities such as manufacture of glass beads, locks etc. are provided by the big manufacturers and finished goods taken back by them paying the nominal labour charges. To avoid such exploitation marketing can be organized by the Govt. and fair price offered to producers. Banks can finance under tripartite arrangements.

d) Government should also arrange raw materials for the small manufacturers.

5.6.2. Other Small Scale Industries:

The following problems were identified in the smooth implementation of the various schemes:

a) Sanctioning powers vary from bank to bank; should be adequate.

b) The necessary technical reports in case of the existing units should be provided by the District Industries centre to Banks. By and large the applications of the SSI should be routed through District Industries centre with the technical feasibility report recommending the need based finance.

c) Adequate services on the technical field staff be provided at all possible branches.

d) The rural industries be given priority in making available of power. Power restoration must be timely and subsidy be allowed on generating sets.

e) There is shortage of raw materials. The U.P. brassware corporation and similar institutions are requested to assist and open its branch for the supply of non-ferrous
materials.

f) Tempo for financing can be increased if recovery of advances are made under Public Recovery Act.

g) A study should be made by District state Authorities for promotion and development of industries engaged in export. Technology should be developed and increased, incentive be allowed to exporters, to generate more employment. The industries identified are brasswares, Hardwares, glass beads, carpets etc.

h) Survey of sick units should be conducted by DIC and information should be circulated amongst banks highlighting causes of sickness to enable banks to be more cautious about them.
Reference


2. Information gathered from Regional office, Canara Bank, Aligarh.


