CHAPTER - II

PROBLEMS OF SMALL-SCALE INDUSTRIES

Introduction; Starting a SSI unit; Problems associated with SSI units in Assam; Incentives; Sickness in the SSI sector; Rehabilitation.
CHAPTER II

PROBLEMS OF SMALL-SCALE INDUSTRIES

Introduction :

It is generally believed that lack of entrepreneurship amongst the people of Assam is a serious matter to be taken into consideration when discussing about the industrialisation of the State. "The forces of custom and habit, distrust of anything new or innovative and a lack of intellectual curiosity have all combined to discourage indigenous entrepreneurship."¹ The people generally prefers simple living and their risk bearing capacity is very low. Except traditional cottage industries, the people, generally were not exposed to other types of industries, - be it small-scale or medium-scale. It was therefore not surprising that barring a few exception, Assam did not have a class of entrepreneurs. However, we notice a welcome change in the attitude of people and also emergence of a few dozen entrepreneurs in Assam.

Starting a SSI unit :

In the background of Assam's underdeveloped industrial infrastructure, it is quite possible that the

entrepreneurs are not familiar with the steps to be taken for establishment of a SSI unit. Now-a-days, training is also available for new entrepreneurs under Entrepreneur Development Programme, which are conducted in our State by some developmental agencies and the Government of Assam.

We discuss below the different steps associated with starting of a SSI unit.

**Feasibility Report:**

The first practical point to be taken into consideration is to prepare a project or feasibility report. Generally, selection of the product and its nature, market survey, financial viability, technical feasibility etc. are included in such report. One can prepare such a report with the help of a private consultant or expert or Government agencies that are available in Assam. North Eastern Industrial and Technical Consultancy Organisation, (NEITCO), National Productivity Council (NPC), Small Industries Service Institute (SISI) etc. are some such consultancy organisations.

Although every feasibility analysis is different and is tailored to the product, its goal is to identify the
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strengths and weaknesses of the project.\(^2\)

**Registration of SSI unit:**

In order to obtain Government and other institutional facilities, SSI entrepreneurs have to register their unit with the concerned authority. The entrepreneur can submit an application in prescribed form to the District Industries Centre or Directorate of Industries, Assam. Units are registered in two stages (a) Provisional and (b) Permanent.

The provisional registration can be obtained at District level and it is for one year which can be renewed for a period of another year in two six-monthly terms.\(^3\)


3. The provisional registration may entitle the party to:
   a) Apply for a shed in an industrial estate/developed site in an industrial area/material for construction of a shed as the case may be.
   b) Apply to Municipal Corporation/Panchayat and other local authorities for permission to construct the shed to establish a unit.
   c) Apply for financial assistance to SFC/Nationalised Banks/other financial institutions on the basis of a project report as may be required by them.
   d) Apply for power connection.
   e) Apply to the NSIC/SSIDC/other institutions for procuring machinery on hire purchase basis.
   f) Obtain sales-tax, excise-duties, etc. registrations wherever required. etc.

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After providing satisfactory proof of the unit having come into existence, it can get necessary registration certificate from the Directorate of Industries.

The provisional registration may be cancelled also, if the concern authority feel so after inspecting and examining the small-scale units.

Acquisition of land for factory:

The entrepreneur should take special care in selecting the size of land, location of the industry, the factory-building etc., so that they can meet the present as well as future requirement of the industry. In this stage, some advantage such as availability of infrastructural facility like power, transportation, raw-material, skilled-labour, market-situation etc. should be the guiding criteria. Assam Small Industries Development Corporation and the Directorate of Industries, Assam, provide readymade factory sheds in industrial estates along with some other facilities.

Raw-material:

Availability of raw-material is a requisite for the continuity of an industry. Necessary arrangement should
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be made with the suppliers of raw-material. It is profitable for a small entrepreneur to start industry with locally available raw-materials. ASIDC also supplies raw-materials and Directorate of Industries allots quotas of scarce raw-materials of the certificate holder (for scarce raw-material) SSI units. In case of imported raw-material, the entrepreneur has to apply to the Joint Chief Controller of Import & Export through the District Industries Centre.

Machinery :

The entrepreneur can get advice from the SISI about their essential machineries. NSIC provides indigenous and imported machinery on hire purchase basis and the ASIDC provides indigenous machinery on deferred credit basis.

Power :

Arrangement for electricity is a prime necessity for a modern industrial unit before starting production. For such arrangement, the entrepreneur has to apply to the Assam State Electricity Board.

Finance :

To arrange necessary fund is the most crucial
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point for the SSI entrepreneur. In Assam, an entrepreneur can arrange term loan, needed for acquiring fixed capital comprising land, building, plant and machinery etc. from the A.F.C. and working capital required for the continuation of production for raw-materials, wages, transportation costs etc. from the commercial banks. The application should be submitted along with the project report and other relevant information such as copy of registration, cash-flow statement etc.

Marketing:

Market situation for the product also should be studied thoroughly. Otherwise the industry will not be commercially viable. SISI, NSIC and ASIDC help the entrepreneurs in case of marketing through the Government store-purchase programme.

In this way, the willing persons can set up SSI units with the help of the State Government and the other developmental/financial organisations.

Organisation:

A SSI entrepreneur can be set up in any of the following organisational pattern -
Individual Proprietorship
Partnership
Public Limited
Private Limited
Co-operative
Public, Co-operation and
Others.

There are only a few SSI units in the public sector in Assam and most of the SSI units are proprietorship concerns. Again, there exists a number of traditional crafts in different districts of the State in unorganised manner.

Problems associated with SSI units in Assam:

In spite of their notable role in our economy, and various incentives provided by the Government, SSI sector faces varieties of problems from identification of a suitable item to the marketing of the finishing product.

Financial Problem:

The biggest problem for this sector is that of obtaining the necessary finance. They do not have adequate funds of their own. Therefore, they cannot install modern
machinery or tools, they cannot buy good quality of raw-materials and become unable to face competition in the market for the finished product. "The facilities of institutional finance as available in the State appears to be quite inadequate."\(^4\) It is reported that many villages in Assam are yet to get at least one bank branch or other financial institution. On the other hand, in many cases the entrepreneurs cannot furnish sufficient security for bank loan etc. and as observed by the Reserve Bank of India, "they cannot obtain the necessary resources from institutional agencies who are doubtful of the ability of such borrowers to repay the loans in time."\(^5\) Therefore, non-availability of adequate institutional finance in proper time has stood as the main obstacle in motivating the entrepreneurs. Who are already victims of decade-old inertia in the field of self-employment.\(^6\) This type of financial problem is not faced only by Assam's SSI sector, but the whole SSI sector of our country as this is observed by different study teams, organised by the Government and other institutions. But, the flow of institutional finance is too

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\(^5\) Reserve Bank of India-Seminar on Financing of SSIs in India, background paper, Vol. II., 1959. p.36.  
\(^6\) Hussain, T. - Problems of SSI units and incentives, - an article published in the Assam Tribune, 20th March, 1989, Guwahati.
poor in Assam compared to other States or all-India level, which will be detailed in subsequent chapters.

**Problems of raw-material:**

Though the North Eastern Region as a whole, has got vast resources for being utilised as raw-materials, the absence of practical demonstration cum training centre has stood in the way of motivating our entrepreneurship in utilising indigenous resources. As raw-material is a basic input for a manufacturing unit, an irregular supply of raw-material may create the problem of sickness to an industrial unit. "The shortage of right type of raw materials at standard prices has affected the entire industrial sector." It is complained that the indigenous scarce as well as imported raw-materials are not distributed equally in our State. Specially, new SSI entrepreneurs are not able to get their full requirement of raw-materials. "The SSI have in many instances to procure raw-materials and components at much higher prices than what the large-scale units have generally to pay for their purchases made in bulk." Even after thirty years, the same problems are

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9. Ibid. p.87.
recognised by the Reserve Bank of India Study Team when it observed - "Basic raw-materials are not available locally. If available, they are in short-supply and prices are high. Due to the absence of national-level godown, the SSI entrepreneurs of Assam have to procure the scarce raw-material such as palm-fatty acid, ferrous, non-ferrous metal from Calcutta, paying extra additional Central Sales Tax, that make the raw-material costlier. All these result in increase of the cost of production. But, due to the lack of sales organisation, in many cases, SSI entrepreneurs are forced to sell their products at lower prices, and thus raw-materials problem leads to financial problem.

**Infrastructural problem :**

Recommending measures for all round economic development of Assam, the Task Force on Economic Development, Assam observes that, "the main constraint strangling industrial growth of the State are a total lack of infrastructural facilities." The standing Advisory Committee of the Reserve Bank of India also observes that, "the region is deficit in power generation which poses a major problem to the industries. Inadequate and poor

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10 Reserve Bank of India, Report of the standing Advisory Committee to review the flow of institutional credit to SSI sector, 1987, p.4.2.
transport and communication facilities continue to be the most important bottleneck inhibiting industrial advancement.\textsuperscript{12} Roadways and Railways - these two common mode of transportation are not well-developed in Assam. Road network suffers a large number of constraints such as inadequate bridging etc. On the otherhand, only a few years back, the State had a broadgauge line only upto Bongaigaon, which recently been extended upto Guwahati. The metreguage network is also very scanty. All these increase the costs of the SSI entrepreneurs.

Marketing problem:

"Marketing continues to be one of the major problem of SSI entrepreneurs because of growing stiff competition not only from large-scale but also within the SSI sector itself."\textsuperscript{13} In Assam, geographical isolation of the State from other region makes the marketing problem more specific. The SSI entrepreneur hardly can compete with the outside product in a market outside the State through the narrow link, known as the Siliguri neck, which also gets demaged frequently. On the other hand, "there is lack of co-ordinated approach for marketing of products of SSI

\begin{footnotesize}
\textsuperscript{12} Reserve Bank of India, Report of the standing Advisory Committee to review the flow of institutional credit to SSI sector. 1987, p.4.2.
\end{footnotesize}
units. The home-market is inadequate and thinly spread over a large area without proper communication link.\textsuperscript{14} They are also unable to expand their market through publicity and advertisement, which involves a huge amount of money. The absence of quality control facility of all India standard for the SSI product of Assam has kept most of the products outside the purview of the purchase network of the Government agency. So, in many cases the SSI entrepreneurs have to depend upon the dealer or other middlemen, where they sell their commodity at a very low prices even.

Other problems:

The above problems are associated with a handful of other problems also, such as lack of technical and managerial skills and facilities, low rate of capital formation, illiteracy and ignorance of the people, underdeveloped human resources, lack of machineries and modernisation etc. etc.

In this background, lack of entrepreneurial talent and industrial awareness decreases the exposure to industrial climate of the State.

\textsuperscript{14}. Reserve Bank of India, Report of the Standing Advisory Committee to review the flow of institutional credit to SSI sector, 1987, p.42.
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Incentives:

Having knowledge of all the acute problems the State Government felt that the State is in urgent need of industrialisation by providing suitable incentives to gear up the economy of the State as well as to create employment. As a backward area, Assam gets incentives and facilities both from Central and the State Government like the other State Governments. The Government of Assam also provides facilities to SSIs in the form of subsidy on the cost of preparation of feasibility reports, working sheds and plots for factory, subsidy on raw-materials, power subsidy, transport subsidy, tax relief etc. etc. A number of incentives are announced by the State Government through its Industrial Policy of 1986, which are stated in Annexure 2.1. One of the special feature of the policy was the establishment of 'Udyog-Sahayaka', a single window clearing agency to each District Industries Centre for SSIs in order to minimise the hardship associated with procurement of financial support from financial institutions.

Again in 1991, the State Government has announced another industrial policy to be operative from April, 1, 1991. This policy has announced enhanced rates of allowable purchase of equity share for the assisted SSI units upto 15

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percent of issued capital, subject to a maximum of ₹15 lakhs, which was 10 percent in 1986 policy. The new policy exempts the newly set up SSI units from payment of sales-tax on raw-material and on finished products for seven years from the date of commissioning as against five years allowed by the 1986 policy. The new policy has made provision for a regular monitoring of the sick units. It also proposes to enhance the power subsidy up to a maximum of ₹30 lakhs. Though all these are undoubtedly good measures, success will depend upon the implementation of such measures. The 1986 policy had also formulated a number of bold measures but failed to achieve success and the vacuum has been sought to be filled by the new policy of 1991.

Financial assistance :

The State Plan outlay for the year 1989-90 for different types of incentives provided under the development programme of Directorate of Industries is stated in table II.1.
<table>
<thead>
<tr>
<th>HEAD</th>
<th>PROPOSED OUTLAY (Rs. in lakh) 1989-90</th>
<th>AGREED OUTLAY 7TH PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-Scale Industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Loan to SSI</td>
<td>25.00</td>
<td>80.00</td>
</tr>
<tr>
<td>2) Seed/Margin Money loan</td>
<td>50.00</td>
<td>90.00</td>
</tr>
<tr>
<td>3) Share/Loan to ASIDC</td>
<td>50.00</td>
<td>150.00</td>
</tr>
<tr>
<td>4) Exhibition/Publicity &amp;</td>
<td>15.00</td>
<td>85.00</td>
</tr>
<tr>
<td>Publication.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Quality control &amp;</td>
<td>10.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Marketing Scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) Incentives as per</td>
<td>10.00</td>
<td>74.00</td>
</tr>
<tr>
<td>New Industrial Policy,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7) Power subsidy &amp; subsidy</td>
<td>30.00</td>
<td>50.00</td>
</tr>
<tr>
<td>for drawal of electrical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>line.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8) Generating set subsidy</td>
<td>5.00</td>
<td>NIL</td>
</tr>
<tr>
<td>9) Feasibility Report subsidy</td>
<td>2.50</td>
<td>25.00</td>
</tr>
<tr>
<td>10) State share in centrally sponsored scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) DICs</td>
<td>106.00</td>
<td>320.00</td>
</tr>
<tr>
<td>b) Seed money for sick SSI units.</td>
<td>2.50</td>
<td>NIL</td>
</tr>
<tr>
<td>TOTAL SSI:</td>
<td>300.00</td>
<td>894.00</td>
</tr>
</tbody>
</table>

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The stated agreed amount of 7th Plan outlay of ₹.894 lakhs only meant for the State plan outlay for programmes under Directorate of Industries, hence, it is not the total amount allocated for the SSI & Village Industries for the 7th Plan, and excludes the amount of agreed outlay for handicrafts, coir and other village industries, as the Directorate does not cover these areas.

Loans to SSI units are granted by the State Government under the Assam Aid to Industries (Small-Scale & Cottage Industries) Act, 1955, upto a maximum of ₹.20,000/-. Co-operative societies may also be accommodated under the Act.  

Capital investment subsidy is provided to the SSI units of Assam under the Central Investment Subsidy Scheme, which was launched from 1971 for selected backward areas amounting to 10 percent of the fixed capital investment. The CIS raised from 10 percent to 15 percent in 1973, to 20 percent in 1981 and to 25 percent in 1985. Another scheme of transport subsidy is also introduced in the same year. These subsidies are provided on transport cost of raw-materials that are brought into and finished products that are taken out of the State. This scheme of 50 percent

17. Reserve Bank of India, Meeting of the Standing Advisory Committee to review the flow of industrial credit to SSI sector, 1987, p. 4.26.
transport subsidy later enhanced to 75 percent in 1983 and to 90 percent in 1986. Both the incentives were introduced in the State from 1973-74. The total amount of Central Investment Subsidy and transport subsidy sanctioned till May, 1986, since inception in the State of Assam was Rs.7.42 crores and Rs.6.15 crores respectively, while the amount disbursed being Rs.6.79 crores and Rs.5.78 crores respectively.\textsuperscript{18}

\textbf{Infrastructural assistance :}

The State Government provides basic infrastructural facilities like the working sheds to the SSI units. As on 1988-89, 12 industrial estates with total number of 245 sheds and 7 growth centres with 24 sheds were constructed by the State Government. Table II.2 shows the total number of industrial estates and growth centres existing in the State.
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**TABLE - II.2 (A) : TOTAL NUMBER OF INDUSTRIAL ESTATES IN ASSAM AS ON 1988-89.**

<table>
<thead>
<tr>
<th>NAME OF THE ESTATE</th>
<th>TOTAL NO. OF SHEDS CONSTRUCTED</th>
<th>TOTAL NUMBER OF UNITS FUNCTIONING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Guwahati</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>2. Dhekiajuli</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>3. Tinsukia</td>
<td>44</td>
<td>31</td>
</tr>
<tr>
<td>4. Badarpur</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>5. Nalbari</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>6. Sibsagar</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>7. Nagaon</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>8. New Bongaigaon</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>9. Lahowal</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>10. Jorhat</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>11. Bihpuria</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>12. Bokajan</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**TOTAL :** 245  152

TABLE - II.2 (B) : TOTAL NUMBER OF GROWTH CENTRES AS ON 1988-89 IN ASSAM.

<table>
<thead>
<tr>
<th>NAME OF GROWTH CENTRES</th>
<th>NO. OF SHEDS CONSTRUCTED</th>
<th>NO. OF SHEDS FUNCTIONING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Barpeta</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>2. Goalpara</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>3. Duliajan</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>4. Kalapahar</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>5. Bonda</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. Lilabari</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>7. Sariharjan</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

TOTAL : 24 10


Raw-material assistance :

To meet the raw-material problems of the SSI entrepreneurs, the Directorate of Industries, Assam, maintains close liaison with the ASIDC and NSIC. Raw-materials such as iron & steel, pig.iron, alluminium etc. are supplied by these organisations. The entrepreneurs
can take materials from stockyards also. Important raw-materials such as cement, steel etc. are distributed from Bongaigaon, Jogighopa stockyard. Raw-material depot have also been opened at suitable centres to ensure the efficient delivery of raw-material. To meet the emergency need, buffer-stocks are also made.

Requirements of imported raw-materials are fulfilled on the basis of the Import - Export policies announced from time to time. SSI entrepreneur can apply for their required raw-materials in the prescribed form to the Directorate of Industries. After getting recommendations of such cases from the Directorate of Industries, the Joint Chief Controller of Import and Export of the Region, issues licences for the concerned units.

**Marketing assistance:**

The marketing assistance "stores purchase scheme" was introduced by the Central Government under which certain products are reserved for the exclusive purchase from the SSI sector and is performed by the Director General of Supplies and Disposal on behalf of the Government of India. The groups of items reserved for purchasing by the Government of India are stated in Annexure No. II.2
Trade fair, exhibition, trade centres, emporium etc. are also some of the facilities provided through the marketing assistance programme.

For a long time, Assam's SSI's products were unable to get the benefit of Government's or DGS&D's scheme as there was no quality control facilities of all-India standard. Although Bureau of Indian Standard, recently made it's presence felt by opening a branch in Assam, but the full-fledged testing laboratory required for giving quality certificates for various items are yet to be established.\(^{19}\)

Under the circumstances, the State Government maintains a purchase scheme where only 15 SSI products have been declared reserved with the limited quality control opportunity offered by the Directorate of Industries, Assam.

Other facilities

For motivating entrepreneurship in the State, the Government of Assam along with NISIET, SISI, NEITCO, NSIC provide different type of assistances such as training facilities, consultancy services, modernisation assistance etc. etc.

\(^{19}\) Hussain, T. - Problems of SSI units and incentives, an article published in "The Assam Tribune", 20th March, 1989.
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For the first time, in 1973, the Government of Assam set up six Entrepreneurial Motivation Training Centres (EMTC) at Mangaldai, Diphu, Silchar, Jorhat, Dhemaji, Kokrajhar. Again, in 1979, three more EMTC were set up at Tinsukia, Nalbari and Nagaon.20

The model of EMTC was taken by the State Government from the NISIET which was established in the State in May, 1982 only. The model consists of training, consultancy and guidance and research. Now, the institution provides trainings at its own risk and constitutes centre-wise monitoring cum guidance committee for effective follow-up of the cases of trained persons. The impact of NISIET's EDP in developing entrepreneurship in the State is stated in Table II.3


<table>
<thead>
<tr>
<th>ITEM NO.</th>
<th>NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Entrepreneurs trained</td>
<td>565</td>
</tr>
<tr>
<td>2. Provisional project report</td>
<td>365</td>
</tr>
<tr>
<td>3. Registered as SSI</td>
<td>331</td>
</tr>
<tr>
<td>4. Loan sanctioned by bank and FIS</td>
<td>80</td>
</tr>
<tr>
<td>5. Units started</td>
<td>148</td>
</tr>
<tr>
<td>6. Units under process</td>
<td>96</td>
</tr>
</tbody>
</table>

Source: NISIET, Guwahati

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NEITCO, a subsidiary of IDBI has started its EDP from 1985, besides preparing feasibility report for SSI's in the State.

SISI, the field-wing of SIDO started its working at Guwahati with its seven branches, two extension centres at Tezpur and Diphu. SISI trainings for EDP are of four weeks duration and stipend is also paid to the trainees.

NSIC, was established in Guwahati in 1972. Besides its other functions it has started EDPs duration of which is four weeks.

The Directorate of Industries from its inception, i.e., from 1978, organised EDP, sometimes on its own and sometimes with the help of other development agencies.

The IDBI has conducted as many as 43 EDPs since inception for the SSI sector in the State. With these special institutions, the SBI is also organised EDP in the State.

In this way, the Government and other institutions are trying to do away with the problems of SSI entrepreneurs
of the State. But, despite these facilities and incentives growing instances of sickness pollutes the industrial environment of the State.

**Sickness in the SSI sector:**

There is a close association between industrial backwardness and sickness, and as a backward State industrial sickness is a common phenomenon in Assam specially in the SSI sector. Not only in Assam, but the whole country has been facing a growing incidence of industrial sickness. According to the RBI, industrial sickness is increasing at an annual rate of about 28 percent in terms of the number of units and 13 percent in terms of outstanding amount of bank credit. Industrial sickness tends to cause loss of production very often leading to unemployment, resulting in blocking of scarce resources of banks and financial institutions, besides entailing loss of revenue to the exchequer.

Therefore, the Government of India has set up different committees to study the problem of sickness and to

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suggest remedial as well as preventive measures of industrial sickness. To find out the sick unit, various definitions have been used from time to time. The need for a precise definition has become necessary because most of the entrepreneurs specially in the SSI sector like to declare themselves as 'sick' so that they can get various concessions given by the Government or other authorities to the sick unit.

**Definition of sick units:**

An appropriate definition of sick units was given for the first time only after the Sick Industrial Companies Act, which was passed in 1985. But, this definition does not cover the SSI units. So, the RBI has formulated a separate definition under its guidelines issued for the commercial banks for rehabilitation. Accordingly, 'A unit is considered to be sick if it has (a) incurred cash loss in the previous accounting year and if it is likely to continue to incur loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 percent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of principal on terms loans and there are persistent irregularities in the operation of its credit limit with
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Again the definitions for SSI sick units has been modified as follows - 'A small-scale unit should be considered as if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 percent of its peak net-worth in the immediately proceeding 5 accounting years.'

Causes of sickness

There are many causes of industrial sickness both internal and external. According to a study report of RBI, "a unit becomes sick when it cannot generate from internal sources necessary working funds to permit continuous operation at the optimum level." Causes of sickness in the SSI sector is analysed by a study team of the State Bank of India in 1975 are shown in Exhibit II.1.

Thus a large number of factors starting from the shortage of finance, inadequate working capital, market uncertainties, power shortage, labour problems, raw-material problems, etc. etc. are responsible for sickness.

26 Reserve Bank of India, Report of the study group to examine the issues relating to the setting up of soft loan assistance fund for rehabilitation of sick SSI units, 1985, p.78.
27 SBI constituted a study team in 1975 under the Chairmanship of Sri J.S. Varshneya to locate the factors contributing industrial sickness.
EXHIBIT - II.1: CAUSES OF SICKNESS IN SSI SECTOR

Sources: Collected from the Report of the Study Group to examine the issues to the setting up of soft loan assistance fund for rehabilitation of sick SSI unit, RBI, 1985.
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In Assam, the Directorate of Industries has listed a lot of factors connected with industrial sickness in the small-scale sector. Another study conducted by the SISI, Guwahati, also found some causes of sickness in Assam. Accordingly, shortage of working capital, shortage of term-loan, high-cost of raw-materials marketing difficulties, lack of entrepreneurial skills, inadequate power supply, competition from outside the State etc. are the reasons for industrial sickness. However, "shortage of working capital and of term loans are considered to be the villain of the peace."28

It is found that in many cases in Assam, sickness is a combined result of different factors. As complained by the SSI entrepreneurs, there is always delay in Government payments who is the biggest buyer of their products. This hampers their future production and make them unable to repay their loan. Again, the high rate of interest increases their problems. In case of tiny units amount of bank loan is very small; on the other hand, middleman is always there to exploit the situation. All these with mismanagement, weak infrastructural facilities, poor entrepreneurial skills lead to sickness in the SSI sector in the State.

Magnitude of Industrial sickness in SSI sector:

As per Reserve Bank of India data, out of the 22.27 lakhs borrowal accounts in the SSI sector as on 31st December, 1987, 2.04 lakhs were reported to be sick, which means that every eleventh SSI units in the country is sick. According to the sources available, during the period 1980-87, the average growth rate of sickness in the SSI sector was 83.4 percent, while the bank credit blocked in the SSI sector grew at an average annual rate of 57.7 percent. Table II.4 shows the total number of sick SSI units and outstanding amount of bank credit locked with these units in Assam as well as in India from 1980 to 1988.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. OF SICK UNIT</th>
<th>AMOUNT OUTSTANDING (Rs)</th>
<th>NO. OF SICK UNIT</th>
<th>AMOUNT OUTSTANDING (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>23,149</td>
<td>305.8</td>
<td>1590</td>
<td>2.03</td>
</tr>
<tr>
<td>1981</td>
<td>25,342</td>
<td>359.1</td>
<td>1595</td>
<td>2.48</td>
</tr>
<tr>
<td>1982</td>
<td>58,551</td>
<td>569.0</td>
<td>2565</td>
<td>4.61</td>
</tr>
<tr>
<td>1983</td>
<td>78,363</td>
<td>729.0</td>
<td>4029</td>
<td>6.46</td>
</tr>
<tr>
<td>1984</td>
<td>91,450</td>
<td>879.7</td>
<td>4912</td>
<td>6.52</td>
</tr>
<tr>
<td>1985</td>
<td>1,17,783</td>
<td>1070.7</td>
<td>5683</td>
<td>7.80</td>
</tr>
<tr>
<td>1986</td>
<td>1,45,776</td>
<td>1306.1</td>
<td>7485</td>
<td>10.22</td>
</tr>
<tr>
<td>1987</td>
<td>2,04,259</td>
<td>1797.3</td>
<td>9722</td>
<td>19.52</td>
</tr>
<tr>
<td>1988</td>
<td>2,40,573</td>
<td>2141.0</td>
<td>11438</td>
<td>24.27</td>
</tr>
</tbody>
</table>


Chapter II Problems of Small-Scale Industries

Data regarding sick units in India and Assam are collected from the 'Economic Survey of India' for different years and North Eastern Institute of Bank Management, Guwahati, respectively. There exists a data gap for the year 1989, as both the Economic Survey of India for 1990-91 and 1991-92 have published the data of sick units for the year 1990 only. Accordingly, at the end of December, 1990, the total number of sick units in SSI sector stood at 2,18,828 blocking an amount of bank loan of ₹2426.9 crores in the country. On the other hand, data for sickness during these two years are also not available for Assam. Therefore, it become unable to show the data for 1989 and 1990 in Assam. From table II.4, it can be observed that sickness in Assam's SSI sector has increased by nearly 7 items during 1980 to 1988 against the all India increase of 10 times during the same period. As per latest data i.e., in 1988, Assam possesses nearly 4.7 percent of the total SSI sick units with 1.1 percent of the total bank loan outstanding locked with all sick SSI units in India. In an industrially backward State, with an acute shortage of capital, this much sickness with locked bank loan is sufficient to create complicated problems. So, both rehabilitation and preventive measures are necessary.
Chapter II  Problems of Small-Scale Industries

Rehabilitation:

The problem of rehabilitation of sick industrial undertakings has been engaging the active attention of the Reserve Bank of India since the middle of 1970.\textsuperscript{31} To curb the problem of sickness the RBI has constituted different committees and issued both preventive and curative measures from time to time. Commercial banks and other financial institutions are asked to follow the guidelines prepared by the RBI in extending financial assistance to viable sick SSI units. Such detailed guidelines for rehabilitating of sick SSI units have been issued to all scheduled commercial banks in February, 1987 covering the definition of sick SSI, timely identification of incipient sickness, viability norms and concessions and relief that the banks can extend on merits of each case.\textsuperscript{32} State-Level Inter-Institutional Committees (SLIIC) have been already set up under the convenorship of the Regional Offices of the RBI, covering all the States and Union Territories.

However, recently the rehabilitation package of these guidelines for sick SSI units have been revised.\textsuperscript{33}

\begin{flushright}
\textsuperscript{31} Reserve Bank of India, Report of the study group of examine the issues relating to the setting up of soft loan assistance fund for rehabilitation of sick SSI unit, 1985, p.78.
\end{flushright}

\begin{flushright}
\textsuperscript{32} Reserve Bank of India, Report of the standing Advisory Committee to review the flow of financial credit to SSI, 1987, p.2.41.
\end{flushright}

\begin{flushright}
\end{flushright}
Accordingly, the present system of prior approval by the RBI for extending concessions beyond the prescribed parameters has been withdrawn. Banks are asked to furnish such individual package of concessions on a half-yearly basis, that will be monitored by RBI. Banks are also asked to follow a strict time discipline in dealing with rehabilitation of sick SSI units such as to identify and to make viability study within three months, to complete the finalisation of nursing programme within three months etc. It is also advised to take assistances from other agencies such as Government departments, financial institutions etc. for undertaking nursing programme. Again, it is suggested that the cases needed co-ordinated action by the financial institutions and the bank concerned should be referred to the SLIIC.

Besides, the Central Government has set up two premier corporations, viz., Industrial Reconstruction Corporation of India, which was later changed into the Industrial Reconstruction Bank of India (IRBI) and the "Board of Industrial and Finance Reconstruction" (BIFR) in 1987. But, the jurisdiction of these institutions are limited mainly to large and medium sectors only. It is reported that the sanctions by the IRBI to the SSI was only ₹13.50 crores
in 1987-88 accounting for less than 2 percent of the total amounts sanctioned for the year.  

For extending reliefs to SSI units the Central Government has introduced the Margin Money Scheme from the 6th Five Year Plan. Under this scheme, the Central Government extends loans to the State Government to the extent of 50 percent of the total margin money loan sanctioned by the State Government.

The IDBI has also prepared its own guidelines for rehabilitating the sick units. Other institutions such as IFCI, SISI, NSIC etc. are also involved with financial, marketing and other developmental assistance for rehabilitation and prevention of industrial sickness at their own initiatives.

State Government measures for rehabilitating of sick units :

"Development of the SSI sector is the responsibility of the State Government." Therefore, to formulate and maintain the relief measures for revival and prevention of sickness in SSI sector is the prime duty of our State also. With the central level and other

institutional measures, the Government of Assam as its own, has passed the "Assam State Industries Relief Undertaking (Special Provision) Ordinance" in 1983. As preventive measures for probable sick industrial units, the State Government has announced a number of incentives to SSI through its industrial policy of 1986, which were already stated in Annexure No. II.1.

The 'margin money' scheme, which is shared equally by the State and the Central Government, is provided through the ASIDC. An outlay of ₹2.50 lakhs is proposed for the year 1989-90, against the previous year expenditure of ₹2.45 lakhs.\textsuperscript{36}

But, it is observed by the State Level Inter-Institutional Committee (SLIIC) that the scheme is not implemented effectively because "the Government of Assam have not notified the details under the scheme and modalities for its implementation as desired by the Government of India."\textsuperscript{37}

It can be stated here that according to the Directorate of Industries, Assam, the SLIIC has identified

\textsuperscript{37} Reserve Bank of India, - Report of the 7th meeting of SLIIC, December, 1988, Guwahati, p.6.
only 5 units as sick in the State upto September, 1990, against an alarming number of more than 11,000 sick units identified by the RBI, during the same period. Even the SLIIC itself realised the negligence as it is disclosed that the meeting of the committee could not be held in time "owing to lack of data on sick small/medium scale industrial units from banks operating in North East Region." 38 The committee also observed that there is lack of close co-operation between the financial institutions and district industries centres (DIC) in the matter of rehabilitation of sick units.

38. Ibid., p.1.