CHAPTER - SEVEN

CONCLUDING REMARKS AND SUGGESTIONS FOR FUTURE PROSPECTS
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7.0 ON THE PRECEDENCE

More than a decade ago, in July 1991, the Government of India adopted two corrective measures (popularly termed as New Economic Policy or Economic Reforms), namely, (i) short term crisis management to correct fiscal and BOP deficits. This programme was termed as ‘Stabilisation Policy’, and (ii) long term structural reforms to improve upon state of growth. Named as ‘Structural Adjustment Programmes’, these aimed at reducing structural rigidities in India’s industrial sector, external trade and taxation. With these thus was the end of an era of protection to the SSI sector.

Prior to 1991, it had been a general acceptance that small industries needed protection through product reservations, price preference, etc. However, since India’s Eighth Five Year Plan (1992-97), then the Ninth Plan (1997-02) and now the Tenth Plan (2002-07), Indian economy more clearly experienced a transition from more or less restricted domestic economy to a market driven global economy. The era was thus of an increasing competition through growing internationalisation and the challenges before the SSIs have been of both survival and competence on a sustainable basis.

A comparison between pre-liberalisation period in India (1980-81 to 1990-91) and the two post-liberalisation periods (1990-91 to 98-99 and 1998-99 to 2002-03)
asserts the canvas of the proposition of the threat of perhaps even dissolution of some section of the SSI sector that is lagging behind the race of the ‘Survival of the Fittest’. The growth rate of production (19.84%) of SSI sector in India was higher during the pre-liberalisation period as compared to the two post periods (which was 17.17% and further came down to 9.93%). Employment generation growth rates also marked similar falls from 5.97% to 4.19% and further down to 3.62%. In contrast to these low-track bestowed performances, SSI’s exports are marked to be picking up from 11.25% to 12.07% and to 13.34%. This is a clear evidence of how R&D, modern technology, cost and price factors, packaging and printing etc. coupled with information technology to extend timely informations of market demand that helps the Export Oriented Units (EOUs) of the sector to keep up with market competition and economic openness of this age. Admittedly, leaving aside the EOUs, experiences of leading states with regard to their SSI sector is disturbed with negative trends of number of SSI units, employment, fixed investment and production, in some degree or the other.

Specially over the more recent years (approbated as the Second Generation Reforms), along with the yet another beget of economic relaxations to extend stimulus to higher growth rate of Indian economy, the crusade approbated the large industries than the small ones. However it will be wrong and misleading to state that the SSI sector was not given the catch. The question is whether the catch extended by Government’s policy measures over the recent years were easy and enough for the SSI sector to live upto increasing levels of both domestic and international market competitiveness.
7.1 ON SSI’s IDENTIFICATION AND COMPOSITION

In order to develop a boundary under which the basic requirements of the SSI sector could be extended, it was felt obligatory to specify the different distinct emblematic definitions of SSI units, as termed under the ‘Industries (Development and Regulation) Act,’ 1951. Nevertheless, stipulated specifications of the term ‘Small Scale Industry (SSI) summons discriminatory horizons in its treatment by different agencies. For instance (Section 1.3), Planning Commission contemplates entire VSI sector as SSI sector; National Sample Survey (CSO) accounts the entire industrial sector as Organised and Unorganised sectors; Central Excise Department identifies SSIs on the basis of annual turnover; RBI embraces both traditional and non-traditional (modern) industries under its definition of SSI and GoI incorporates periodic revisions in the definition of SSI (table 1-3) on the basis of investments as the original value of Plant and Machinery.

As a note of remark it may be mentioned here that in most of the countries of the world, the size of a unit is ascertained either by the number of workforce employed and/or by a criteria to appraise assets. Further most of these countries have the form of ‘Small and Medium Enterprises’ (SMEs). The SMEs continue to enact an appreciating function in the industrial growth of both developed and developing countries.

In as much as composition of SSI sector is concerned (Section 1.4) its panorama impends three aspects: (i) Based on manufacturing sector composition, SSI is one of the two parts of factory-sector, the other being the large scale units. Here, VSI comes under the non-factory sector.(ii) Viewed as organised and unorganised sector, SSI units which are registered under the Factory Act, 1948 are basically classified as Organised Sector Units, whereas VSIIs come under the unorganised sector. (iii) The VSI sector perception
is disjuncted into two clear sub-sectors, namely the Modern SSIs and the Traditional SSIs. Although this third perception extends more transparency, yet it remains a fact that the Ministry of Small Scale Industries, Government of India, in its Third All India Census of SSIs (2001-2002) used the category of Registered SSI sector and Unregistered SSI sector.

7.2 ON INSTITUTIONAL SUPPORT STRUCTURE

Creation of a separate Ministry of Small Scale Industries in 1999 was surely a milestone, emphasizing the government’s commitment towards this sector. In the Central frame-up, Small Industries Development Organisation (SIDO) which happens to be the office of Development Commissioner (SSI), attached to the Ministry of SSI, is the nodal implementing agency of Central Government policies and also coordinates policy programmes with State governments, R.B.I., and other financial institutions at different levels.

At the State level, the Commissioner/Directorate of Industries enact the State-specific policies. Under the domain of State Directorate, there are District Industrial Centres (DICs). Beside these, there are other major corporations at the state level, for instance, SFCs, SIDCs, SSIDCs, TOCs and SECs.

In cognation with the financial framework of SSI sector (Sec. 1.6), leading national and state level institutions are effective in the country, engaged in financing of credit requisites of the sector. As an apex development financial institution for SSI sector in the country, SIDBI conducts its Promotional & Development (P&D) initiative to
improve efficiency and competitiveness of the sector. After SIDBI there are Banks and SFCs engaged in such role. Alongwith there are host of other corporations (hart 1/6/4) which extend finance and specialised support services to the SSI sector.

7.3 ON GOVERNMENT’S PRESCRIPTION FOR DEVELOPMENT OF SSI SECTOR

The audacity of SSI sector is mainly due to its colossal contribution to country’s GDP. For instance, the sector’s production accounted for 22.85% of GDP and exports marked more than 3% of GDP in the year 2001-02. Presently, the sector has been assigned the target of annual growth of 12% (to achieve 10% growth in the industrial sector) and creation of 4.4 million additional jobs during India’s Tenth Five Year Plan. Clearly thus there lies the fundamental responsibility of the Government to reorient its policy reforms more in favour of the sector. As such the second generation reforms are undergoing with full efficacy and regulatory framework is further relaxed in favour of the larger ones. Along with government’s inability to extend the desired levels of incentives owing to its own financial repressions, the basic requirement of cheap flow of credit, in the form of long-term capital and working capital requirements, in acting as hindrance in a big way.
7.3.1 ON INDUSTRIAL POLICY OF 1991

To start with, the government’s role towards development of SSI sector can be visualized by the Industrial Policy of 1948 that guided India’s industrial growth for eight years. It acknowledged the role of SSIs to ascertain better utilization of local resources to ensure employment opportunities. To meet varied challenges from time to time, Industrial policy statements were modified in 1973, 1977, 1980 and in 1991. The new Industrial Policy of 1991 held that the primary objective of SSI policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to country’s output, employment and export growth. In this respect the SSI sector has been substantially delicensed. Further efforts are in the process to deregulate and debureaucratize the sector.

Importantly, all industry-related service and business enterprises were recognised as SSIs and termed as SSSBE (Small Scale Service and Business Enterprise), whose investment ceiling was corresponding to Tiny enterprise. On the score of access to capital market and to encourage modernization and technology upgradation, it was decided to allow equity participation by other industrial undertakings in SSIs (not exceeding 24% of the total share holdings). This will also provide boost to ancillarisation and sub-contracting, leading to expansion of employment opportunities. In addition, to ensure stronger linkages between agriculture and industry, a new scheme of Integrated Infrastructural Development for SSIs was to be implemented with active participation of State governments and financial institutions.

Acknowledging that marketing remains a major problem area for small and tiny enterprises, to enhance support mechanism, market promotion were to be undertaken
through co-operatives, public sector institutions, other specified/professional marketing agencies. Further, to ensure and widen complimentarity in the production process of large, medium and small industrial sectors, parts & components, sub-assemblies etc. were to be encouraged for production to ensure a viable and competitive ‘component market’. Alongside, keeping in view of significance of exports of the sector, an Export Development Centre was to be set up under the nodal agency SIDO.

To demarcate national and international standards, reorientation programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost-effectiveness in SSI sector was to be pursued. It was also defended that Government will continue to support first generation entrepreneurs through Entrepreneur Development Programme (EDP). Further, answering to the persistent complain of SSI units being subjected to a large number of Acts & Laws, procedures were to be simplified, bureaucratic controls were to be effectively reduced and paper works were to be cut down to minimum under the Industrial Policy of 1991.

7.3.2 ON PLAN STRATEGIES

Ever since India’s First Five Year Plan, there have been a definite delineation of the SSI sector towards achieving its basic objectives. Of late, till the completion of the Ninth Plan (1997-2002) that was commonly termed as the period of Second Generation Reforms, and even in the strategy approach of the current Tenth Plan (2002-2007) such attention ascertained the due importance to this sector to enable it to coup up with the current market competitions.

It was categorically emphasised in the Ninth Plan that the VSI sector needs greater focus in terms of investments and technology upgradation, infrastructural
support, marketing and credit facilities to facilitate their growth and employment. Alongside, not only credit flow to SSI were to be augmented but also list of item reservations were to be reviewed to achieve the benefits of economies of scale, technological up gradation and export capabilities etc. It was implicated that technology development and up gradation were to receive special attention. In view of impressive contribution of SSI sector to exports, it was held that the sector requires even further encouragement.

Even in the current Tenth Plan, dependency on SSI sector’s growth is considerably high yet is necessary to sustain industrial targeted growth during the Plan. For this, the Plan annotated the need to ensure policies supportive for the SSI sector. Relaxations at the state level an help this process. Alongside, it was also held that reservation of items should be phased-out within a reasonable time-span. Yet while doing so, due considerations should be given on its impact on employment, as the present employment scenario is not good.

### 7.3.3 ON RECENT POLICY ENVIRONMENTS

The most positive step in the Union Budget 2000-01 was enhancement of limit of composite loan to secure both term loans and working capital from the same agency. Alongwith, the exemption limit of excise duty for the sector was also enhanced. Further, not only the collateral requirement for loans up to Rs. 5 lakh was dispensed but also the loan limit under Composite Loan Scheme (CLS) and project cost ceiling under National Equity Fund (NSF) Scheme was enhanced. These steps were certainly emphatic and affirms government’s intention to strengthen SSI’s financial strength. The viability of
SSI units was further corroborated with liberalised tax structure for Venture Capital Funds and extension of tax holiday for setting up of new SSI units in industrially backward states.

Reiterating the policy initiatives announced in the previous budget, the Union Budget 2001-02 had further pledged its commitment of ceiling of composite loan, rationalisation of excise duty structure, setting up of Integrated Apparel Banks for ready-made garments industry, budgetary support to the newly set up Credit Guarantee Fund Trust (CGT) for small industries were the major steps in this direction. Bearing upon the removal of quantitative restrictions on imports of 715 items in accordance with WTO agreement, in order to enhance the competitiveness of SSI units involved in 41 items of hosiery and handtools, their investment ceiling in plant & machinery was raised from Rs. 1 crore to Rs. 5 crore. This is surely a concrete step towards these two industries to live up to expected competition in both domestic and international market. Beside these, the government also has extended the catch for small business, retail traders, artisans, small entrepreneurs, professionals and self-employed persons by providing simplified and borrowing friendly credit facilities under ‘Laghu Udyami Credit Card’ scheme.

The genuineness of government’s commitment towards the SSI sector was once again proved at a higher level in the Union Budget 2002-03. Bearing upon the increased competition faced by the SSIs due to trade liberalisation, the government consolidated its tax measures to give a push to investment. The major beneficiaries were those connected with infrastructure sectors, key industrial sectors like textiles, food processing, tourism and rural development. Exemption of excise duty in specified textile industry, abolition of special excise duty (SED), reduction of custom duty on selected processing machinery and agricultural machinery, income tax benefits to tourism and entertainment industry, additional depreciation on new plant & machinery etc. were some of the major tax
incentives to promote investment in the sector. Alongside, setting up of Micro-Venture Capital Fund, collateral free/third party guarantee free lending, investments of long term capital gains in SIDBI bonds to benefit under 54 EC of Income Tax Act etc. would boost flow of credit and investments in the sector.

A further fillip to investment to enhance the manufacturing sector’s efficiency and accelerate growth of exports, the Union Budget 2003-04 had once again incorporated relevant policy measures for the SSI sector. On this score, peak rates of custom duties were either reduced in some cases removed in many items like gem stones, diamonds and gold bars. In case of textile industry, custom duties were sharply reduced on machinery items to encourage up gradation and modernisation of textile units along with enhancement of ceiling of investment in plant & machinery. In order to encourage capacity expansion, technology up gradation and to build the competitive strength of SSI units, the excise duty structure was rationalised into three slabs on select items. Furthermore, tax holiday exemptions were granted for 10 years to not only Information Technology industry but also to pharmaceuticals and biotechnology. This step will definitely give boost to the growth in these three industries. As another consolidated step, alongside the continuation with government’s de-reservation policy, a major thrust was provided in the budget for ‘Public-Private Partnership’ in the area of infrastructure. Another important imprint was that for the first time government’s EXIM policy laid its special focus on Cottage Sector and Handicrafts to strengthen the SSI sector. Finally, a series of other steps were also announced to boost exports of SSI sector.
7.3.4 ON ACQUISITIONS FROM GOVERNMENT

All put together, the role of government towards development of SSI sector is visualised in totality, from the apex policy level, collectively through India’s Industrial Policy, Five Year Plan strategies and the recent Union budgetary policy measures.

While most importantly, the Industrial Policy of 1991 recognised all industry-related Service and Business Enterprises as SSIs (termed as SSSBE), it also made efforts to ensure stronger linkages between agriculture and industry for SSIs with its scheme of infrastructure development. Acknowledging that marketing remains a major problem area for small and tiny enterprises, support mechanism was enhanced for market promotion. Annotation for modernisation and technological up gradation aimed at improving productivity, efficiency and cost-effectiveness were apparent, in lieu of liberalised market competitiveness. Simplification of Acts & Laws, loosening of bureaucratic controls and effective reduction of paper works were also answered.

In as much as Plan strategies are concerned, specially during the second generation of reforms, India’s Ninth Plan and Tenth Plan continued with its significant dependence on the growth rate of SSI sector for country’s overall industrial and export growth. However, alongside it was also categorically recognised that the credit flows to the sector must be augmented for greater focus of investments in technology up gradation, infrastructure support, marketing and export capabilities. For this, the plans annotated the need to ensure policies supportive for the sector.

Of late, policy environments as transcript through the recent year’s Union Budgets imprinted government’s continued attention to ensure credit flows to the sector both in form of term loans and working capital. Affirmation of government’s intension to
strengthen SSI’s financial strength also gets articulated by continued liberalisation of tax structures. Reduction of customs duty and rationalization of excise duty in selected industries of the sector are the indicators in this respect. Beside many other measures, government’s perusal of de-reservation policy and special focus on Cottage sector and Handicrafts in EXIM policy were not only aimed at increasing strength and competitiveness but also to boost exports of the sector. Lastly, not to belittle the significance of ‘Laghu Udyami Credit Card’, government’s care for small business, retail traders, artisans, small entrepreneurs, professionals and self-employed persons gets affirmed.

7.4 ON PRESENT STATUS OF SSI SECTOR

Based on the Third All India Census of SSI (2001-02) conducted by Ministry of SSI, GoI under registered SSI units, while about 62% are working units, 38% are the closed ones. Clearly thus, the various problems that these units are encountered with need investigation. Secondly, out of working units, 66% are SSI units and the rest 34% are SSBE. From this it is deducible that the small scale service and business sector have occupied important and significant place in the SSI sector.

It is quite but interesting to find that while there have been more than four times jump in average fixed investments that resulted into doubled average production of the working SSI units, yet there have been one and a half times fall in the average employment. Consequently, while one and a half times fall in the average employment. Consequently, while on one hand there was 50% fall in capital productivity due to lesser
hike in average output (as compared to higher jump in average investment), on the other hand capital intensity of the working units got elevated six times, mainly due to fall in employment in contrast with higher jump in investment. Apparently in effect increase in investments in SSI sector have failed to carry forward the levels of production and employment that it should have been in effect with higher investments. This sequential outcome certainly is the incandescence of the problems and hindrances of the SSI sector.

7.4.1 ON TOP 10 SSI ACTIVITIES

Under registered SSI sector in India, the top 10 economic activities enclave among them 38.5% of total number of SSI units, extended 36% of total employment and produced 26.5% of total gross output of the SSI sector. However, the nature of economic activities and their ranks do differ in terms of number of units, output and employment. For instance, while the top five activities in terms of number of units have been Tailoring services, Manufacture of Furniture, Flour Mill, Manufacture of doors, windows, and Rice Mill; activities in terms of gross output have been Rice Mill, Manufacture of Alloy steel products, Manufacture of plastic products, Dal Mill, and Manufacture of Vegetable Oils & Fats; whereas in terms of employment the activities have been Tailoring services, Manufacture of bricks, Rice Mill, Manufacture of Furniture and Manufacture of all types of textile garments.

Considering the functional form that output is a function of number of units and employment, analysis of top 10 activities revealed that while on one hand, with the rise in number of units there have been high and positive impact on output, yet on the other
hand we marked the reverse impact of employment on output, that is to say, with the rise in employment, output decreased significantly. In this respect, the results so obtained also matched with the GoI’s Census results, where it was marked that while output had got doubled (from II\textsuperscript{nd} to III\textsuperscript{rd} Census), employment fell down by one and a half times and for which reason there had been six times jump in capital intensity.

7.4.2 ON OVERALL PERFORMANCE OF SSI SECTOR

Articulating overall performance of SSI sector (1994-95 to 2002-03) the deducible facts are quite alarming. Over this period, there have been the sharpest fall in the growth rate of production, followed by the drop in growth of number of units and lesser extension of rate of employment. The growth of the sector’s exports though have had been associated with wider fluctuations, yet appeared to be more elastic. Interestingly, despite of these falling trends, comparative real growth imprinted that growth trend of SSI sector is still the highest, accompanied by growth trend of manufacturing sector and succeed by trend growth of overall Industry. Yet such higher trend growth of SSI sector appears to be of no consolation specially when we compare pre- and post-liberalisation performances. Economic reforms in effect could not provide any impetus to SSI’s production and employment. Both these two factors marked alarming fall in their respective average growth rates. The only consolation is SSI’s exports which still marked increasing levels of average growth rates.
7.4.3 ON VSI SECTOR’S ACCOMPLISHMENTS

As per the classification made by Office of DC (SSI), the VSI sector is divided into two groups, namely the modern and the traditional. While the modern sector includes all SSIs and Powerlooms, the traditional sector includes Khadi & Village Industry, Handlooms, Sericulture, Handicrafts and Coir. On the score of their contribution, on one hand, modern VSI sector dominates in its share in VSIs total production and exports and on the other hand, traditional VSI sector continues to generate more employment. In fact, SSIs continues to be the giant partner in modern VSI sector that is extending giant shares in all the three factors, namely production, employment and exports. A matter of major concern, however, is Handicrafts sector whose significant shares in production, employment and exports are marked with sharp falling trends.

7.5 ON FINANCIAL RESOURCE SUPPORT / SIDBI

At the apex level of Financial Institutional Credit Framework, in extension of financial resource support service to SSIs, we have SIDBI (Small Industries Development Bank of India). In the next tier there are Banks (Commercial banks, Regional Rural banks and Cooperative banks) and host of State-level financial corporations along with some other specialised all-India level principal financing institutions.
### 7.5.1 ON OVERALL OPERATIONS OF SIDBI

Among SIDBI’s sanctions, its activity of Refinance portfolio have been occupying the highest share. In fact, its annual growth rate got almost doubled over the six years. Succeeding this is the share of Bills financing, followed by Resource financing and Project Financing activity. However, as a matter of solicitude, growth rate of Bills financing dropped more than four times, whereas Resource Financing also fell more than the double. Extensively, Project Financing observed fluctuating growth rates.

With regard to overall performance of SIDBI, all in all, its aggregate sanctions and disbursements have been much influenced by overall macro-economic and industrial scenario of Indian economy. The periodic sluggishness in the economy characterised by industrial deceleration and adverse macro-economic conditions were naturally translated into SIDBI’s activities also.

### 7.5.2 ON SIDBI’S REFINANCE ASSISTANCE

SIDBI’s continued pursuance of strategy to meet the changing requirements of SSI sector is viewed by its types and nature of activities. In this respect, first of all its Refinance portfolio got almost doubled. Such increase is purely attributed to more than three times increase in its refinance assistance to Banks. Yet in contrast, its refinance to SFCs decreased drastically by more than six times and to SIDCs even critically by 46 times.

As an added note unlike its disparity in refinance assistance to backward areas and to tiny projects, SIDBI extended its maximum share of refinance assistance to
service sector followed by Food & Food Products, Textiles (including jute), Metal Products and Chemicals & Chemical Products.

7.5.3 ON BILLS FINANCING BY SIDBI

In order to overcome the problem of delayed payments to SSI units, SIDBI introduced its four bills financing schemes. However, the sluggish industrial growth particularly in capital goods and the automobile sectors had adversely affected this activity. Yet as a matter of worry, the recovery in industrial growth specially in manufacturing sector failed to be translated in SIDBI’s bill financing at its aggregate level.

7.5.4 ON RESOURCE SUPPORT TO INSTITUTIONS

Pertaining to the highest share of resource support to SFCs and SIDCs, it has become a matter of much concern that it dropped by more than eight times. Clearly thus, the objective of strengthening financial health of SFCs have weakened considerably. Likewise, share of support to State Electricity Boards and Power Corporations fell by almost eight times. In contrast, SIDBI is marked to have extended greater priority to a host of Other Institutions that recorded increase by more than eleven times.
7.5.5 ON PROJECT RELATED FINANCING BY SIDBI

In view of accelerated pace of development, financial resource support services to SSIs will be of much importance. It was expected that financing of infrastructure, marketing, technology upgradation and modernisation of SSI units will be the major focus areas. Deducibly, as articulated, SIDBI well supported the task of technology upgradation and modernisation through its two schemes (TDMF and TUF). However, imprints of SIDBI’s Project Related Financing annotated its highest share to SSI’s exports through its two schemes. Next to exports, it is Infrastructure Development Financing (IDF). Though its sanctions got operated at second highest level, yet it failed to disburse these. Succeed by it, Marketing Assistance occupied the third highest share of sanctions. Yet again, its disbursements marked with sharp fall. Followed by marketing, were assistances for technology development, upgradation and modernisation of SSI units. Collectively, the two schemes TDMF and TUF occupied the fourth place of sanctions and encouragingly their disbursements operated at higher levels.

7.6 ON FINANCIAL RESOURCE SUPPORT (CREDIT) BY BANKS

Following the apex level financial resource support service by SIDBI, at the second tier level it is Bank’s credit to SSI sector. Demarcations in this respect highlighted the fact that while Bank’s credit to SSI sector accounted more than 80% of aggregate outstanding portfolio, SIDBI extended 17% and the rest was by SFCs. Thus,
Bank’s role is certainly dominating. Alongside, among Banks, the Public Sector Banks are still extending the lion’s share (about 80%) of credit to SSIs. In sequence, the private sector banks are articulating more than 13%, and the rest is answered by Foreign Banks.

7.7 ON THE ROLE OF UPFC

Over the four years of study period, UPFC failed to encourage the SSI sector in U.P. While there had been nominal fall in the number of SSI units sanctioned, there had been more than 10% drop in the share of sanctioned amounts. Its disbursement amounts also fell by more than 5%. Alongside, resource management by UPFC also do not extend a happy position. The falling resource strength of UPFC gets exposed by the fact that there had not been any markable rise in Paid-up Capital and State government loans. These two accounted only 4% and 8% of total resource managed. The highest resource strength of UPFC is its Repayments of loans by Borrowers. This also is at a stagnated level of 54% after handsome rise in 1999-00. The second highest resource strength is gathered through Refinance from IDBI/SIDBI. Here again there is the drastic fall by 10%. Only the third highest resource source of loans from RBI against Bonds & Debentures imprinted nominal rise by 3%.

7.7.1 ON SIZE-WISE ANALYSIS OF TERM LOANS / UPFC

Size-wise analysis of gross sanctions by UPFC gets quite precarious in the lowest group-size of upto Rs. 0.5 lacs. Here, under it, not only percentage of SSI units are falling but also loan availed by them are almost negligible share. Clearly thus, UPFC is
failing to encourage Tiny and Ancillary units. Yet another matter of concern is the execution that while about 34% of SI units acclaimed only 7.4% of total term loans, the rest 66% of SSI units availed 92.6% of term loans. Nonetheless, the highest beneficiaries are imprinted in the group size Rs. 7.5 – Rs. 30 lacs, both in terms of percentage of units and amounts of term loans.

7.2.2 ON PURPOSE -WISE ANALYSIS / UPFC

Annotations in this regard recorded highest (55%) effective sanctions went for New Projects of SSI units, claiming the highest (46.2%) sanctioned amounts. Alongwith, another 21% of SSI units also claimed for Working Capital. Truly, both fixed capital and working capital are the basic necessities that need to be answered. The second highest effective sanctions of term loans were for the purpose of Expansion of SSI units. However, the need for Modernization/Replacement of SSI units marked discouraging scenario, both in terms of units and amounts which came down to almost insignificant levels.

7.7.3 ON SCHEME -WISE ANALYSIS / UPFC

Popularity of UPFC’s different schemes was highest claimed through National Equity Fund Scheme with 21% increase in number of SSI units claiming the highest share of 39% of total sanctions for equity support. The second fame was acquired by Single Window System, both in terms of SSI units and sanctioned amounts. Succeeding it, though much behind, were Equipment Refinance Scheme and Nursing Home Scheme. These two schemes not only operated at a comparatively lower levels but also becoming
less desirable. Even the Modernization scheme failed to make any impressive score. Finally, as a matter of solicitude, continuity of 100% Export Oriented Scheme could not be maintained.

7.7.4. **ON INDUSTRY–WISE ANALYSIS / UPFC**

Articulation of industry-wise classification of term loans extended by UPFC demarcated highest share of effective sanctions to Food Manufacturing industry, followed by textiles, metal products, chemicals and chemical products and rubber products. These are certainly the leading industries, of which most of the products are either already de-reserved or are on the card. Hence, promotional activities by UPFC in this respect is commendable.

All in all, chronicle of UPFC imprinted the facts that while both effective sanctions and disbursements are marked with positive note in 2001-02, yet the number of disbursals are yet to pick-up the level earlier attended. Second, UPFC has done a good job in setting up of new SSI projects. Simultaneously it also well supported the working capital requirements of SSIs. Alongside, UPFC also provided its highest Equity Capital support through ‘National Equity Fund’ also. With regard to the existing projects, UPFC was quite rational by extending its second highest sanction of term loans for ‘Expansion’ purpose. Side by side, its ‘Equipment Refinance Scheme’ extended the third highest support of term loans. However, despite of these commendable achievements, its Modernisation scheme and 100% Export Oriented scheme failed to present a happier note. Nonetheless, we may crudely maintain that UPFC’s term loans for Expansion purpose may be assumed to be a close substitute of ‘Modernisation’ on the ground that
these expansions of existing projects might have been incorporated with modern technology. Thus, what is left out is its efforts to encourage export-oriented SSI units. This has certainly lagged behind.

7.8 ON PRIMARY SURVEY BASED PROBLEMS OF SSI UNITS

The basic objective of primary survey of SSI units in Varanasi was to gather first hand informations on the types of various problems faced by these units. Problem areas covered right from raw materials, financial assistances, employment and labour, level of investment and associated problems, to more importantly types of competitions encountered with. The survey was conducted purely on random basis consisting of 168 SSI units engaged in as many as 37 types of different activities.

7.8.1 ON FACTOR EMPLOYMENT

With regard to employment and labour problems, the highest average employment was found in Paper Mill. The second highest employment generation is carried through Flour Mill and Plastic Bag factory. Succeeding these are New Paper Publishing Press, Cattle Feed factory and Railway Liner-Piston factory. These bunch of SSI units are extending average employment number ranging from ‘above 10 to 80’.

Concerning nature of employment, higher majority (88%) are skilled labours and are having regular employment. The basic problem in this respect is lack of trained labours. While significantly high (65%) maintained that the existing wage rates are high,
they also expressed their worry that once the labours are trained in the factory, they bear the risk of drop outs once trained.

7.8.2 ON FACTOR RAW MATERIALS

Concerning sources of raw materials and its associated problems, while as high as 84% of them acquire from wholesales, 35% also meet partial requirements from either own sources or from the government. However their problem in this respect is that they not only acquire raw materials from far sources but also their biggest problem is high price of raw materials. This certainly results into cost escalation and affects the ultimate price of their products. The price factor seems to be a serious problem because about 46% of SSI units are further subjected to their vital problem of marketing. Alongside, 19% of activities also annotated their concern over lack of government subsidy. Further their sources of raw materials being at far, add up the transportation cost and problems. The net collective effect of all these surely raise the level of anxiety of SSI units.

7.8.3 ON PURPOSE OF FINANCIAL ASSISTANCE & PROBLEMS

While majority SSI units acknowledged the need of financial assistances for general purposes, in sequence financing of plant and machinery, purchase of raw materials and even for meeting marketing finance was called for. Alongside, bearing upon the problems associated with it, almost 60% of activities still maintain that the existing interest rate burden is high. More than half of them also complained against hard terms and conditions and about one-fourth of them even felt difficult to bear the burden of loan.
7.8.4 ON FACTOR INVESTMENT

Imprinting highest concentration of SSI’s activities on the investment slab of Rs. 1 – Rs. 10 lac, it was succeeded by in Rs. 10 – Rs. 50 lac slab. The lowest concentration was demarcated in the lowest slab of Upto Rs. 1 lac. With such accomplishments of investments, what is much striking is the fact that 33 out of 37 activities expressed their anxiety over their most serious problem of meeting the working capital requirements. This is almost a Herculean task for them. Alongside, they also accompanied the need for higher investment for technological up-gradation, for increasing their production capacity, for plant & machinery and also for R&D.

7.8.5 ON OTHER PROBLEMS

Not to belittle the gravity of the problem of power (electric), the biggest problems of SSI units is of marketing. Responses are also high for their problems involved in production process, plant and maintenance, technical knowledge and lack of demand knowledge. Moderate number of activities also scored on their problems of Package and Printing, Product linkages, R&D facilities etc.

7.8.6 ON TYPES OF COMPETITION

Reckoning with types of competition faced by these SSI units, 23 out of 37 activities leveled market price competition as their main anxiety. Followed by it are the
competitions encountered by other district/State products. Variety of product in the
market is their third form of competition. Truly, burdened by higher cost of raw
materials, and constrained by low scale of production together with lack of technology
(faced by 12 out of 37 activities), ultimately get translated into factor price competition.
Further, their inability to ensure variety of products, proper packaging and advertisement
put these units at a lower step in the competition. Finally, around 11% of activities are
also exposed to international competition arising from foreign products.

7.9 ON PROSPECTS OF SSI SECTOR

The second generation of economic reforms is underway with vigour. Liberalisation of key sectors is gaining momentum. Regulatory and legal framework are relaxed to provide further impetus to growth of the economy. Over the past decade, Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the liberalised era. Being one of the major growth drivers of the economy, the biggest challenge before the SSIs in the emerging market scenario is not only to survive but also to grow on a sustainable basis with competence. India’s Ninth Plan and the Tenth Plan continued with its significant dependence on growth rate of SSI sector for economy’s overall growth and for industrial and export growth. The target of doubling India’s per capita income by the end of first decade of the current millennium (i.e. by the year 2010) along with the current thrust of greater participation by private sector in the development process, provide due opportunity as well as responsibility on SSI sector to contribute towards achievement of this target.
Consequently, not only to bear upon both national and international market competitions but also to fulfill the economy’s warranted growth rates, the forthcoming years will be of more importance for the SSI sector mainly due to the accelerated pace of deregulation of financial sector. To grow with strength, not only proper flow of financial resource support service is necessary for the SSI sector, but also such financial services should be less burdensome. The undergoing metamorphic changes in the Indian financial system must take care of this. Undoubtedly, financing of infrastructure, plant and machinery, expansion and modernisation, technology upgradation, marketing, R&D are bound to be the major focus areas, which should necessarily be comprehended for apprehension of future prospects of SSI sector. Especially over the more recent years, with continued beget of economic relaxations to extend stimulus to acquire higher economic growth, policy measures favoured the big industries more than the small ones. However, it will be misleading to state that the SSI sector has not been given the opportunity-catch. The question is whether the catch extended by government’s policy measures over the recent years was enough and easy for the SSI sector to not only live up to the market competitions but also bear the burden of financial assistances (term loans). As a matter of solicitude, this has not been the case. The translations at the apex level by SIDBI extend enough evidences. The falling shares of disbursements as percentage of sanctions by SIDBI, increasing levels of refinance assistances to Bank and subsequent drastic reduction in favour of SFCs and SIDCs, its greater priority of resource support to ‘other institutions’, the downward trend of disbursements of project related financing amply extend evidences. Furthermore, our primary survey on the problems of SSI units also highlighted this fact that majority of SSI units still find it much burdensome to bear the interest rate burden of term loans. Hence lies the need for the policy makers to make financial services more mark-down for the SSIs to enable them to bear and sustain the
interest burden. This must be the focal point of liberalised financial system of Indian economy.

Secondly, it may be recalled that the Working Group of the Tenth Plan on SSI sector also felt for the need to create hassle free environment of policy framework for making the sector more competitive. For which adequate infrastructure facilities, appropriate linkages between large and small industries and expansion of marketing network including thrust on exports, must be concentrated upon. In this respect, we feel that while cheaper financial resource support services provide the base or the foundation strength, infrastructure and marketing network are the two pillars on which the SSI sector stands. Circumspectly, a separate Policy Implementation Cell need to be established to keep vigil on the extent to which implemented strength is extended by financial resource base and pillars of infrastructure and marketing network.

Thirdly, as SSI sector stands today, to compete both at national and international levels, it is of immense necessity that buoyancy in economies of scale along with constant up-gradation of technology must be acquired. Undoubtedly, these two issues are the key factors of strength and competence of SSIs in the forthcoming years. In this respect, the network of infrastructural supports and of marketing facilities will effectively constitute adherent factors for their continuity and sustenance with certainty. Alongside, as an ex-factor, knowledge and information being key to any success today, the future dynamics of SSI sector is bestowed upon its Information Dissemination System.

Fourthly, Information Dissemination System is the vital clue of success in this modern generation. This system must be effectively developed in favour of the SSI sector also. A complete network of informations at both domestic and international level should be developed to enable the sector to have up-dated informations on all the related demand and supply side factors. Establishment of an Information Abode at the central
level in condominium with state level will enable SSI units to avail opportunities with convenience and suitability. Conjugation of past and present experiences in this regard may provide basic guide lines in formation of Information Abode.

Fifthly, product-market is another critical issue of SSIs that enclaves many other severe dimensions. Marketing is a multidimensional problem of the sector. It importantly circumscribe technology upgradation for price effectively and cost efficiency, product standardisation, accounting for buoyancy in consumer choice, product interlinkages and market’s supply-demand informations. Thus, a comprehensive approach must be adopted towards the sector’s marketing predicament. In this respect, a Central Marketing Plan may be formulated, consolidating it on the basis of broad product-group-based strategies to be applicable to each state. Under it, the SSIs will be required to have recognitions under the levels of classified product-groups, common product standardisation, common market research facilities, common market informations and wider levels of technologies to ensure cost-efficiency and price effectiveness. Such a Central Marketing Plan with its unified broad product-based strategy can form a club of SSIs under its umbrella and be successful in ensuring multi-dimensional issues related to marketing.

Sixthly, it is the high time that the SSI sector should be re-oriented at a modest level to establish some higher degree of stimulative inter-linkages between large, medium, small and tiny ones, so as to ascertain ancillaryisation in the vertical set up of industrial sector. Experiences can be learnt from the development models of Korea, Japan, and Singapore in this respect, where basis of such relationship is not by force but by economic advantages and specialisations. Understandably, not the entire industrial sector can be brought under such an umbrella. Yet certainly, sector specific higher degree of correlations can be acquired while establishing inter-linkages in industries like engineering, automobiles, electronics and electrical appliances, textile and garments,
agro-based food products, leather products etc. As suggested earlier, establishment of an Information Abode for dissemination of required informations in this regard will also act as the base-information system towards establishment of interlinkages and its future dynamics.

Seventhly, to meet and sustain international competitiveness, there lies the urgent need to hasten the period of transition from the existing level to higher international standards of quality and design. As a positive step in this regard, the scope of the ongoing incentive scheme of ISO 9000 certification was enlarged to include reimbursement of expenses for ISO 14001, Environment Standard Certification w.e.f. Oct. 28, 2002. In continuance with the impetus, it is also under the consideration that creation of a category of ‘Medium Enterprises’ will streamline the chain of industrial growth by enlarged scope of SSIs to graduate into medium enterprises. Further, this will be in the line with global phenomena of Small & Medium enterprises (SMEs) and its corporate strength.

Eighthly, with regard to the role of SIDBI at the apex level, some prominent attention is drawn on following facts that needs due vigil by SIDBI. (a) SIDBI needs to take cognizance of the fact that its total disbursements as percentage of total sanctions have come down by more than 10% over 13 years from 1990-91. (b) With regard to SIDBI’s resource support to Institutions, while it is finding more safe and profitable to invest in ‘Other Institutions’, its support to SFCs/SIDCs has drastically come down (from 45% in 1999-00 to 5.2% in 2002-03). Reason for such drastic fall being, for instance, the net NPA in case of UPFC was as high as 48% as against SIDBI’s total net NPA was 1.51%. Surely such events strike the eye and SIDBI must keep its eye open for such buckle down and need to examine closely its falling resource support to SFCs keeping in view of the vital role of SFCs and adhere to its regulatory norms to reduce the
level of NPAs. (c) Disbursements as percentage of sanctions of SIDBI’s Project Related Financing have come down by more than 25% over the 13 years. In this respect, disbursements for marketing reduced drastically, whereas for infrastructure also marked severe fall. Such attributions pick up the ears and calls for intent re-considerations for such non-fulfillments. (d) Nonetheless, its two schemes for technology development and up gradation collectively though marked fall in sanctions, the disbursements were on the happier note. We suggest that SIDBI needs to engross more on its these schemes on technology development, up gradation and modernisation. Ascriptions in this regard should have been more uplifted and louder as per the call of the day.

Ninthly, concerning the role of UPFC which on the whole was in keeping with the aggregate economic climate of the country, convey some areas of concern that urgently calls for close performance revaluation by UPFC and examine reasons for such buckle downs. (a) Its ratio of sanction to disbursement has come down. For this, UPFC needs to basically reduce the time-gap in between sanction and disbursement. (b) UPFC’s Modernization scheme continued to perform at a lower level and more crucially it failed on the note of 100% Export Oriented scheme. These are serious fallacies. In view of the era of vast market competitions, it becomes parental responsibility of UPFC to encourage the SSI units of the State under these schemes. It may be recalled here that while SIDBI is finding it more safe and profitable with Banks than SFCs, the majority of resource finance to SSIs are also through banks than SFCs. This is more than enough evidential to raise caution against the decreasing role of SFCs in its vital schemes. There lies thus the urgent need to set up a Committee to deeply investigate into the reasons for the failure of SFCs and how best the SFCs can be brought back to the mainstream of state level financing, specially keeping in view continued de-reservation policy.
Finally, our primary survey revealed that while the SSI units feel for the need of higher investments for technology up-gradation, for increasing production capacity, for Plant & Machinery and for R&D; circumstantially they also feel their limitations in going for term loans in this respect, as the interest burden is often too high for them to bear. Thus, there lies the utmost necessity for the government, the RBI and the financial institutions to collectively reformulate their interest rate policy and bring the interest down to more affordable rate. The urgency and the gravity of the problem also gets further deducible from the anxiety of SSI’s most serious problem of meeting working capital requirements. This is almost a Herculean task for the SSIs. Alongside, reckoning with their worry of market’s price competition, together with the necessity of maintaining the quality and standardization of their products, can only be achieved through price effectivity and cost efficiency. This in turn fundamentally requires higher scale of production with proper enhancement of technological upgradation and modernisation. Thus, all in all, in the core of their all problems it is the higher investment that is the need of the day, be it for technological advancement or for working capital or for the other. Hence, instrumentally the problem is of monetary policy of the government, as to how best the rate of interest of term loans be softened. It goes beyond doubt that SSIs may fail to grow much further by itself and therefore the government in consultation with RBI must act fast on it before it expects more out of SSI sector to keep up the tempo of industrial and aggregate economic growth of the country.