

Small and Medium Industries—Problems and Promotion

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One of the major aims of the various schemes of economic development is industrialization in the country. For this very purpose a rational utilization of nation's resources men, money, material, machines and management along with the development of primary sector is highly essential. In view of the threatening dimensions of unemployment which may cause an irreparable damage to the socio-economic structure of our country development of small and medium industries has become an urgent economic necessity. In underdeveloped country most of the income is derived from primary sector and small and medium industries. They are also sources for foreign exchange earnings. In the present context of industrialization, it is desirable for less developed country to make continuous efforts to develop their manufacturing activity for export purposes rather than to depend on primary goods. It is an open secret that our large scale industries are not interested in the export of their product because they have a sheltered home market where they can easily sell even the poor stuff at fancy prices and more specially when a large number of consumers are indifferent about prices, quality, availability, cost and durability. They do not bother about the formation of any platform of their own. Declining trend of India's trade in the world economy is a concrete proof before us to prove the aforesaid fact. In the light of this background it is in the interest of Indian economy to divert its efforts to look deeply into the problems and also to protect and promote small and medium industries to achieve self-sufficiency at home and also to increase foreign earnings.

During the course of the planned economic development for the promotion of small and medium industries various measures such as establishment of industrial estates, financial aid, reservation of exclusive product and purchase by the government and its agencies have been taken. As a result of these measures the number of units, their output, employment and earnings by way of export have increased. Besides this there are at present 25 small industrial institutes, 18 branch institutes, 41 extension centres, 3 training centres, 5 production centres, 1 extension and production centre and 4 inspection centres to promote small industry. Under the new industrial policy many more measures are being taken for growth.

Yet much is left to be done to protect and promote small and medium industries for the sake of solution of national problems and economic growth.

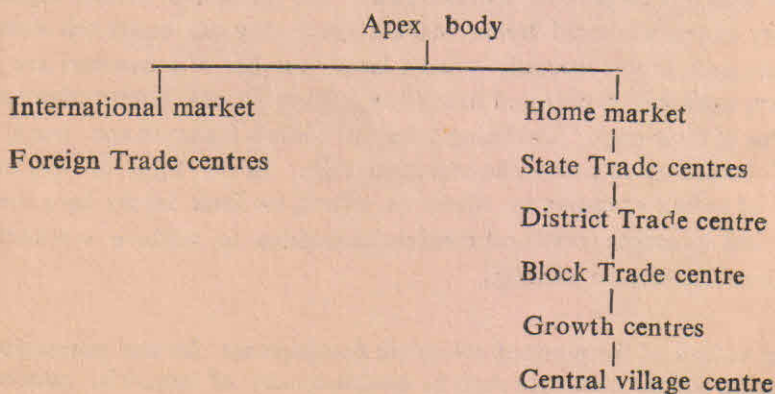
Problems

On the basis of past performance some of the problems which are hampering the continuous and efficient growth of small and medium enterprises are:

1. Lack of organised marketing channels;
2. Scarcity of essential critical raw materials and imported components;
3. Inadequate credit and financial facilities;
4. Transfer of technology and managerial problems, and
5. Self-imposed constraints.

Marketing Channels

Marketing of the products of small and medium industries is a biggest problem. SME lack holding capacity and cannot wait for a long period to sell their products. Besides, there is communication gap between SME and buyers. In view of this difficulty, there is urgent need for organised marketing agency. This agency should be able to provide services for organizing sales and its regular promotion, marketing intelligence and trade contracts and works as store house for information to buyers inside and outside the country regarding the availability of various items of production, their quality and composition etc. For the implementation of the proposal Chakradhari panel has suggested the floating of National SME Marketing Authority, as an apex body at the national level having linkage with various marketing centres organised its for technical guidance and management control. The chart regarding its set-up is being given below:



The structural linkage can be managed through National Small Scale Industries Corporation, State Director of Industries (Marketing) and District Industries center at all levels instead of setting up ad-hoc trade centres. In order to boost foreign trade the apex body

can carry various policies programmes outline for the purpose, conduct market-surveys for various products inform the demand in quantity and pattern both for the present and future' establish direct link with producers and buyers, execute multi-lateral/bilateral agreements and suggest various other remedies to counter balance the protective policy adopted by advanced countries. This will further reduce the inter competition amongst various firms. In case these steps are taken it will result in more trade, more employment and better growth in this sector.

Reorganization of Credit and Finance

Various financial institutions (Commercial Banks, Cooperative Banks, Regional rural Banks, SFCS, NSIC and SSIDCS etc.) have been established in the country to provide finance but the total institutional credit available to this sector is merely 18% which is fairly low. It is matter of common experience that many number of units in this sector failed/died during the short period from the date of their existence (see report of Small Scale Industries 1979). Really speaking it is a pity how the self employed young enterprenures have been discouraged to stand on their feet on account of shortage of funds. Apart from this financial institution have not gone much beyond the limit of semi-urban areas. Rural bank have come up at a few places only. Till today credit continues to be a major constraint for development of rural and medium industries. The author has come accross court cases going against the young enterprenures.

Like other countries so far private institutions or voluntary organisations have not been encouraged to supplement the efforts of public bodies. Many new branches have been opened in rural areas but they are hopelessly inadequate is a vast country like India, unfortunately banks offer Security Oriented Credit while the need is development oriented credit Apart from the traditional type of advances there is necessity for venture capital, equity participation innovation finance, nursery finance employment incentive and reconstruction finance In Nepal there is a statutory obligation on commercial bank to provide 7% of the total bank credit to small units with a capital up to 2 lacs. In Greece there is system of providing working capital for 3 years and terms loan for land and building for 12 years. In U.K. and Swedan, a lot of facilities exist for the purpose of providing finance.

In the light of above facts there is necessity for establishing Small Industries Deve-lopment Bank to provide refinance facilities to financial institution and banks to cover risk, service export credit requirements, monitor dispersal of credit and provide funds to state corporation for development of land, construction of sheds etc. at very low of interest.

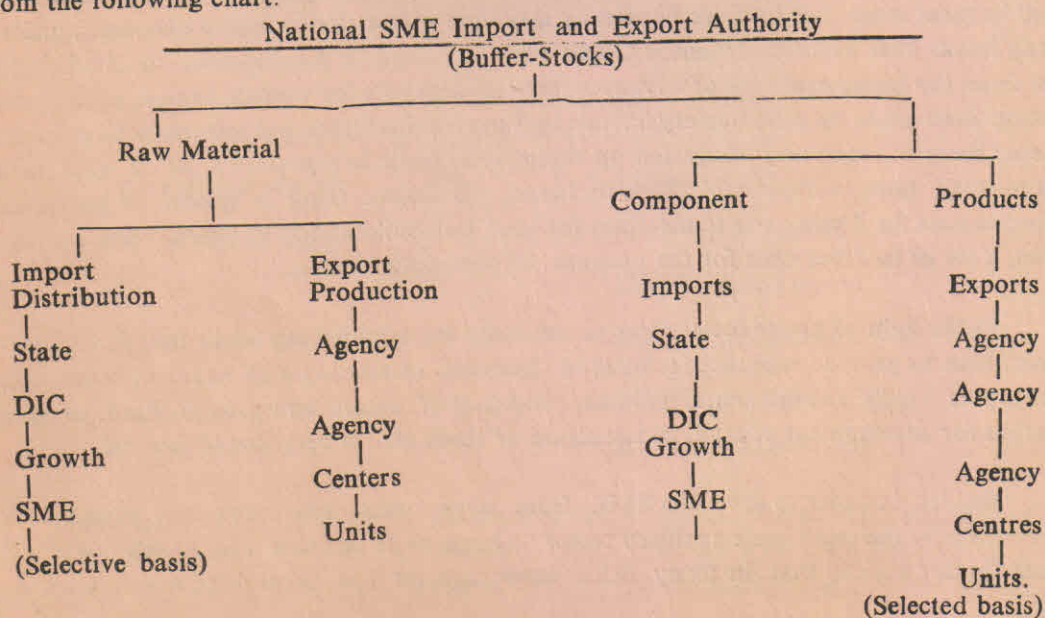
Besides, in order to save the SME from large scale industries timely payment for supplies made by the small scale ancillary sector to large units be made a legal obligation. It has been further noticed that in many fields encouragment has been done not only by the

government itself but some multinational companies which have been allowed to set up even for the production of items reserved for SME. It will be wise for the Govt. to provide statutory protection to small scale units for items reserved for them so that their finances invested produced good return and no rivalry is developed at the later stage.

Scarcity of Essential Critical Raw Materials and components :

A number of steps have been taken during the plan period in the field of development and organisation of SME, which has resulted in the establishment of large number of units in various parts of the country but unfortunately they are suffering from shortage of essential and critical raw materials which are imported. The distribution of imported raw materials has not been based on sound lines. Many small units have been established without consideration of feasibility, availability of raw materials and other infra-structural facilities. This has resulted in the improper distribution of raw materials, finance and other inputs leading to higher cost of production. Some benami units have come into light which are black marketing imported raw materials in the country. On account of this difficulty many SME have to purchase raw materials at high prices from the open market or in some cases close their units of production. In the light of this background it is highly essential for the government to distribute the critical raw material to small scale enterpreneurs at low cost and there by help them to reduce their cost of production.

This facility of providing imported raw materials will promote the development of small and medium units be provided. In the new Industrial Policy it has been suggested that arrangement for maintaining buffer stocks of essential and critical raw materials is essential for the growth. As such, this proposal be implemented by the establishment of National S.M.E. Export and Import Authority. The details of the set up be seen from the following chart.



Technical Improvement

The SME are suffering from shortage of trained, skilled and experienced personnel and low level of technology. An appropriate technology must be made available to SME for continues and effective growth. An appropriate technology is one which is cheap labour intensive non-exploitative, incapable of being misused and compatible with local culture etc. as such in, this approach import of foreign technology can not be ruled out. Transfer of technology from abroad is really essentially but at the same time it should not result in displacement of labour. Modernization of small and medium units is also needed but on account of lacks of finances this programme has not been implemented. The WASME also recognized that any transfer of technology the cooperation of developed countries is essential. Joint Ventures can result in better growth and development of small and medium units but unfortunately the procedures existing in industrialized countries are not conducive and are not oriented to the development of small business in developing countries. These procedures, therefore, need to be closely examined. So that they may be properly revised. Official and non-official organisations in the industrial countries should be in a positions:—

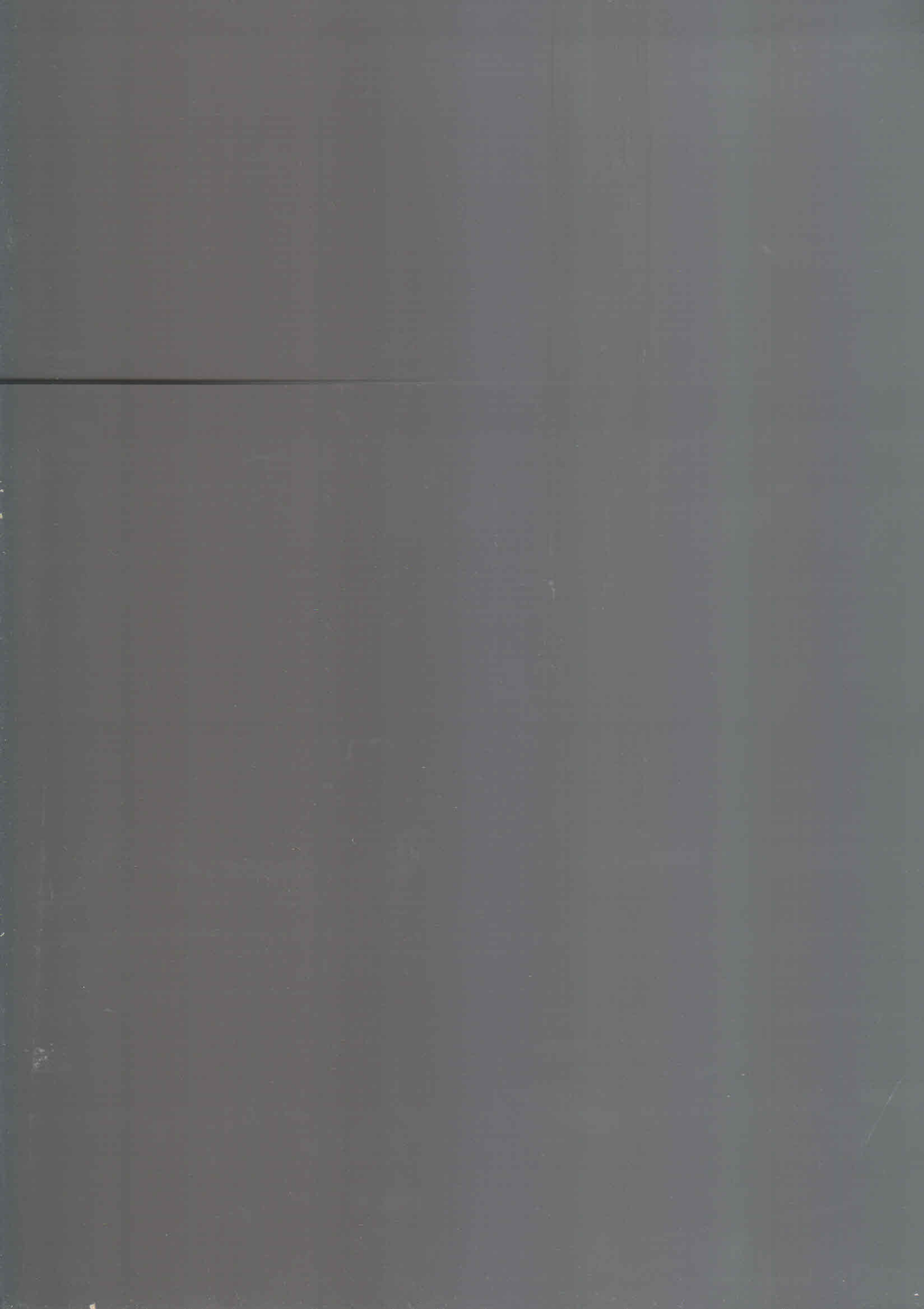
- to undertake information campaign in small business circles potentially interested in joint venture with their counter parts in developing countries;
- to create the structure of assistance, technological transfer, personnel including, consultants specilised in national and international procedures;
- to follow up the launching of Joints Ventures which would have been promoted under definite agreements.

The WASME urges upon international organisations, more particularly those like OEDC to take these facts into consideration and uadertake necessary review of their programmes to enable them to meet these emerging needs and requirement of small and medium enterprises. Development of skilled men power is also equally essential for improving productivity and quality of product in these units. Expansion of facilities for training skilled man-power is also urgently required.

Self Imposed Constraints

It has been observed that many difficulties have arisen because of the wrong implementation of various labour laws and Factory Act which has become "HURDLE" to small and medium units and it will be appreciated that such clauses are not made applicable to small units. It has been also argued that legal obligation to resister all units be made compulsory.

In the end it can be safely concluded that when the above mentioned difficulties are removed it will possible to reduced the poverty and in-equality of income, generate more jobs, increase export earning and step up the rate of growth of economy as a whole.

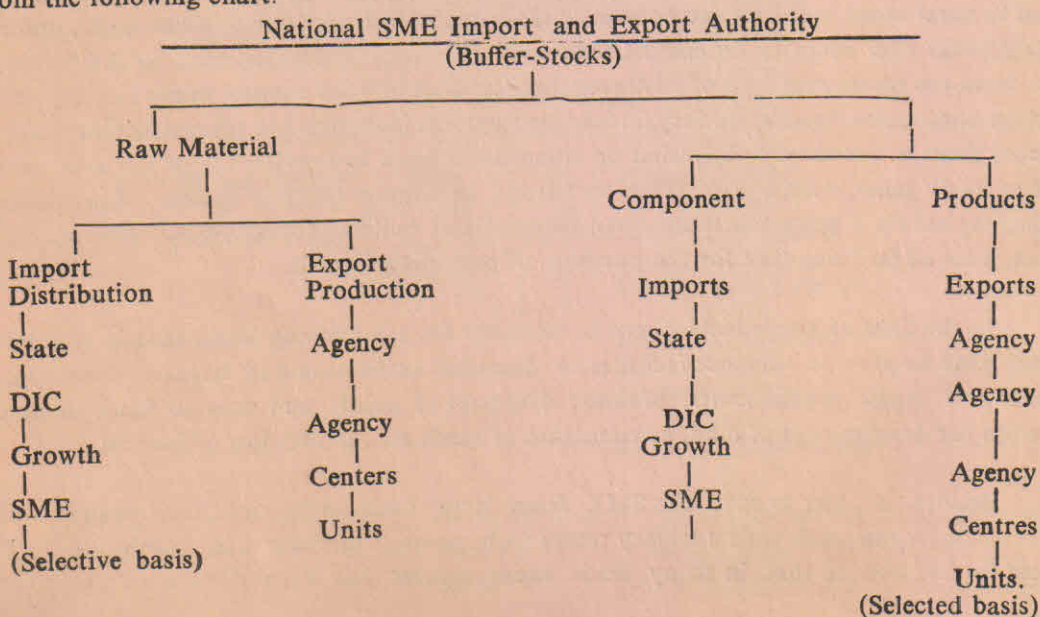


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