

A Critical Evaluation And Liberalization Effects on Small Scale Industries

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ABSTRACT

Globalization signifies a process of internationalization plus liberalization, in which the world has become a small village. It led to an 'Unequal Competition'- a competition between 'giant MNC's and dwarf Indian enterprises'. The small scale sector forms a dominant part of Indian industry and contributing to a significant proportion of production, exports and employment. Small scale sector merited only two or three paragraphs in the more general industrial policy statements. The fact that Government considered it necessary to make a separate policy statement for small enterprises was a welcome recognition to the dynamic and vibrant nature of the sector. This policy statement proposed some path-breaking measures to alleviate the handicaps faced by small enterprises in respect. Government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector.

A Critical Evaluation and Future Outlook, Liberalization Effects on SSI, Issues and Prospects In the context of the emerging scenario of liberalisation and the financial sector reforms the development banks need to gear themselves to meet the varied requirements of the small and medium scale sector. They need to create new products that are relevant and have more impact. In the new economic scenario, the role of technology has emerged as a strategic variable influencing manufacturing system of the industrial units who need to reorient their strategies to meet the challenges of the competition. With the upward revision of the investment ceiling, much potential has now been created for technological upgradation and the vertical integration of the industrial units so as to derive advantage from economies of scale.

The liberalisation regime has also opened the doors for a large number of entrepreneurs to embark upon the setting up of venture with innovative technologies and their commercial applications with a high risk high return profile, which requires assistance through the venture capital route. Many development banks have, therefore, taken steps to provide sector specific Venture Capital funds to the small and the medium sectors. Various State Governments have already launched the Venture Capital fund scheme for the targeted sectors. All across the world, the MSMEs have been accepted as the engine for promoting equitable economic development. In India, the MSME sector constitute 95% of all enterprises and plays a pivotal role in the overall industrial economy with 40% contribution towards manufacturing output and 33% towards total exports. It employs a total of 60 million people spread over 26 million enterprises. The MSME sector in India is heterogeneous, dispersed and mostly unorganized. They continue to face a number of common problems, which, accordingly to the 'Report of the Prime Minister's Task Force on Micro, Small and Medium Enterprises' (2018), are: •Lack of availability of adequate and timely credit; •High cost of credit; •Collateral requirements; •Limited access to equity capital; •Problems in supply to government departments and agencies; •Procurement of raw materials at a competitive cost; •Problems of storage, designing, packaging and product displays; •Lack of access to global markets; •Inadequate infrastructure facilities, including power, water, roads, etc.; •Low technology levels and lack of access to modern technology; •Lack of skilled manpower for manufacturing, services, marketing, etc.; •Multiplicity of labour laws and complicated procedures associated with compliance of such laws; •Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and •Issues relating to taxation, both direct and indirect, and procedures thereof.

1. Non-availability of adequate infrastructure support,

Much of the potential of small firms to grow and nurture innovativeness is shaped by the kind of infrastructure, both physical and economic, available and can be accessed at reasonable costs. Moreover, the nature and implications of such infrastructural absence or inadequacy could vary between small enterprises located in urban areas and those in rural and semi-urban areas. Access to dependable supply of electricity is the most crucial issue hindering the rise of productivity and output of SMEs. Power cuts generally range from 24-48 hours

per week. Similarly, poor transportation facilities, especially in rural and semi-urban areas, have been cited as constraints encountered by small enterprises; access to newer and larger markets has been restricted due to this reason. The crucial infrastructure facilities required are improved roads, railways and port facilities.

In addition to the generic infrastructure that boosts the local economy in general, there is need for enterprise specific infrastructure, viz. provision of common effluent treatment plants (CETPs), well-developed industrial estates / parks,

common testing / quality check facilities, etc. Even provision of potable water to small enterprises was considered an important infrastructure that could add to productivity enhancement.

2. Non-availability of adequate and timely credit

Due to proactive policies of Government of India and Reserve Bank of India, the credit flow to Micro & Small Enterprises (MSE) sector has shown an increasing trend in the recent years. Nonetheless, financing continues to be most important challenge for the creation, survival and growth of Indian SMEs. Shortage of working capital, fixed capital, equity, etc. is widely recognized as the hurdle in the growth of SMEs.

Out of various sources of finance of the micro, small and medium enterprises surveyed, 28% of surveyed Small enterprises took loans from financial institutions and 4.1% took loans from friends and relatives and from money lenders who generally charge a higher interest rate of 20-30%. A related issue is the inadequate knowledge of various schemes of Government of India and SME. The survey shows that only 40.2% small enterprises are aware about the Government financing schemes. SMEs are generally more vulnerable in times of crisis for many reasons, among which are: □ It is more difficult for them to downsize as they are already small, □ They are individually less diversified in their economic activities, □ They have a weaker financial structure (i.e. lower capitalisation), □ They have a lower or no credit rating, □ They are heavily dependent on credit and □ They have fewer financing options.

The survey also results that the SMEs were confronted with a clear downturn in demand for goods and services and subject to two related stress factors: a) increased payment delays on receivables which added - together with an increase in inventories- result in a shortage of working capital and a decrease in liquidity and b) An increase in reported defaults, insolvencies and bankruptcies.

3. Issues related to delayed payment

The MSMEs generally experience a delayed settlement of dues owed by the large scale buyers, thus, adversely affecting the flow of funds and business operations of the SMEs concerned. Seasonal business face the major issue and suffer the most in debt collection. Many of the SMEs still find it difficult to do so, because of the fear of loss of business and procedural hassles. (i) Establishment of a central/ state level government agency which regularly monitors and mandates the debt payment time period of large scale industries to SMEs. The agency should benchmark and do ratings of the large sector companies on the basis of their debt payment period. (ii) Disallowance of CENVAT credit on goods purchased from SMEs, if payment was not made within the stipulated period. (iii) To make deduction of expenses ineligible to the extent of outstanding dues for calculation of income tax, if the purchaser did not make the payment up to the agreed time period. (IV) Lack of adequate knowledge about Government Schemes and facility with respect to adoption of Information and Communication Technology (ICT) Technology is one of the most critical elements in the growth of the MSME sector. India is ranked very high in terms of availability of Science and Engineering personnel; however, MSMEs in India have not been able to fully utilize this vast infrastructure to achieve

competitive edge in the global markets through access to modern technology. Owing to obsolete technology, the cost of manufacturing is much higher in India compared to the other developing countries in Asia. The SMEs are facing stiff competition from imports and need technological upgradation to produce better quality products at cheap rates. The utilization of Information and Communication Technology (ICT) in the SME sector is generally found to be limited. Given the financial limitation, IT budgets are usually small for SMEs. In addition, adopting ICT is not a one-time cost because there are ongoing costs of maintenance, upgrading, and human capacity building. Limited ICT literacy of SME owners hinders their ability to choose the appropriate technology and understand the concrete benefits it can bring to their business. Many SME owners are still skeptical of the concrete benefits to its core business and have the stereotype that ICT is only for larger companies. Even if they have the will and financial resources to integrate ICT into their core business, SME owners often find it difficult when needing to choose the most appropriate and cost-efficient product.

Moreover, while technology solution providers can help SME customers unlock the potential of scattered and unrelated data through integration and analysis, MSMEs are not well-versed with prevailing ICT legal system and feel hesitant to go in for internet based transactions.

4. Informational Inefficiency

The Government has taken various steps and launched many schemes and programs for the benefits of SME sector. But many SMEs are still not aware about the various government schemes. The Government has launched various schemes in all areas, from excise duty exemption to foreign market access support to quality upgradation, but of the SMEs surveyed, only 14-50% are participating in the schemes and availing the benefits. Various problems, such as, Lengthy paper work, Timeliness and Relevance in addressing business needs, makes it difficult for SMEs to avail benefit of the schemes. Among those surveyed, 83% MSMEs find the application process lengthy, 80% MSMEs have faced delays in receiving benefits and 40% SMEs feel the schemes are unable to address their business needs.

5. Procurement Issue

Demand of products of SME sector is a major concern, especially during economic crisis period. Generally, SMEs find it difficult to participate in public procurement mainly due to unavailability of financial guarantees, lack of knowledge about tender procedures, new opportunities and large size of contracts. Formulation of a Procurement Policy, which sets an annual procurement target from the SME sector for the central ministries/departments/ PSUs, could address this concern and be a great support to this sector. Across the globe, Government Procurement Policies have been able to provide a big boost to the SME sector. In India also, the size of public procurement is huge and can provide a high potential for growth to the SME sector, which covers a wide range of supplies, services and works required by governments, local authorities and public organizations.

6. Lack of proper means and support for brand building

Unorganized sector enterprises generally suffer from weak marketing. Most SMEs do not have money to invest in market research, advertisement, packaging and are unable to carry out design and technical improvements to keep up with market demands. This limits their ability to tap markets and attract consumers. According to survey, five major challenges restricting access to domestic markets are Cost of production (due to high raw material cost), Market information, Import surges, Regulatory and Availability of professional management skills. 71% of enterprises have found that their sales suffered due to imports with sales declining by 26-50 percent for 63% of surveyed units and by less than 25 percent for 21% of the surveyed units.

7. Access to Global Markets

Many segments of SME especially the traditional sectors, find it difficult to compete against aggressive marketing by the big domestic and multinational players Street vendors, petty traders, handloom and power loom weavers, home-based food processing units, khadi institutions, attar perfumers, zari workers, and rural artisans are the worst affected. There is a need to evolve a constructive response to this situation. As these sectors employ the most marginalized, the indigenous/traditional industries should be given opportunities to tap both the domestic and international markets. Among surveyed units, only 24.5% small enterprises are engaged into exports and have accessed global markets. The prominent countries of export are United States of America (USA), United Kingdom (UK), China and Germany.

According to the survey, the major challenges faced by SMEs in accessing global markets, in decreasing order of priority are: □ Market information □ Price competitiveness □ Cost of transport □ Availability of professional management skills □ Non-tariff barriers □ Domestic regulations (for services exports) Among medium enterprises, cost of production is a major concern as they are able to gather market information easily, compared to micro and small enterprises that are not well educated about global markets and sometimes also lack the resources to gather market information.

8. Future Prospects of SSIs

In the Indian economy, the uncertainty of economic revival has now been replaced with a benign economic turnaround and positive outlook. There has been good improvement in demand for capital goods and consumer durables, especially consumer cars. The positive shift in turnover & order booking, during the second quarter of FY 2018-2019 may be attributed to the effect of the various stimulus measures announced by the Government of India and the Reserve Bank of India, during FY 2017-18.

The positive sentiment built up in the second and third quarter of FY 2018-19 is expected to carry forward with higher optimism. The present period is, in fact, a testing time for the Indian MSMEs who have shown considerable resilience in the past and have the capability to bounce back to the road of growth and prosperity. The great entrepreneurial spirit of Indian

MSMEs, higher capital productivity and growing savings would be the key drivers of MSME growth momentum. The SMEs have to continuously incorporate latest technology into their production processes to gain efficiency, as well as dynamism in their marketing and management functions, besides improving upon their inventory management. The SME exporters may also attempt to diversify their export destinations and explore new markets including those within the domestic market, which by itself is very large. Another area where the SMEs must pay wider attention is in widening their knowledge and information base. Traditionally, this sector has been suffering from information inefficiency. As a result, many opportunities are missed simply due to lack of information. The strategy of the plan is two-pronged- it focuses on livelihood and social security. This is not just a rights issue but also makes economic common sense- artisans and entrepreneurs can be most productive only when they are physically and mentally fit. Thus providing enabling provisions for artisans, weavers, and small entrepreneurs within industrial policies and schemes will automatically fulfill the constitutional requirement and the commitments made by various Plans. While planning infrastructure development for industries, the needs of the micro and small sector would be kept in mind. There is need to move from adversarial to complementary relationships between various segments of industry and MSE. For instance, handlooms can target hi-end exclusive products—stoles, shawls, sarees, and furnishings- while powerloom mills do bulk production for gamchas, dhotis, towels, bed and table linen, etc. Big brands can continue to develop products such as suitings, shirtings, t-shirts, etc. The SME sector, including handlooms and handicrafts, presents an opportunity for exports. Exclusivity, which stems from the dispersed nature of this sector, is its biggest strength. And yet, the dispersed nature of the sector makes it difficult to meet bulk orders, raises quality control issues, robs the workers of bargaining power, limits access to credit and markets, results in absence of social security, and prevents enterprises from benefiting from economies of scale. The effort during the Plan period will therefore be to organize this sector, to create clusters and SHGs of weavers/artisans to improve their bargaining power and to enable them to pool resources. These groups, comprising weavers, artisans, and entrepreneurs, will be given full control over cluster decisions and will be provided support in the form of credit, inputs, expertise, and marketing links.

For micro and small entrepreneurs who cannot bring in sufficient equity/promoter's contribution, a flexible debt-equity ratio may need to be adopted while sanctioning export credit. As international experiences indicate cluster based financing is the most effective way of providing credit to SMEs. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bug bear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalisation will therefore, attract the infusion of just these things in the sector.

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