

## Research Paper

**CHALLENGES BEFORE SSI SECTOR IN INDIA****Dr. B. H. Damji**

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**ABSTRACT**

*The role of small scale industries in terms of growth, production and export is quite appreciable. The industrial policy resolution of 1948 and 1977 have emphasized on the development of SSI sector. The government promoted to SSI sector during post independence period. However, the globalization policy has posed some challenges before SSI sector. Though the government has been attempting with various policy measures, the efforts seem to be inadequate. The tough competition in the both domestic and international market is very stiff. So there is an urgent need to strengthen the SSI sector in India. The small scale industries also need to resort to modernization.*

**Key words :** SSI sector, Challenges, Measures

**INTRODUCTION**

A rapid growth of Small Scale Industries Sector is a significant feature of the Indian economy. The SSI sector plays very important role in the Indian economy. Since small enterprises are labour intensive they have generated employment on large scale. In 2005-06 294.90 lath people were working in the small enterprises. The role of small scale industries in terms of growth, production and export is quite appreciable. The industrial policy resolution of 1948 and 1977 have emphasized on the development of SSI sector. The government promoted to SSI sector during post independence period. However, since 1991 the small scale industries are facing various problems. The process of globalization has created many challenges before SSI sector. Small scale industries are presently seriously handicapped in comparison with large industrial units. So it is essential to remove disabilities so as to strengthen their competitive position.

**CHALLENGES**

The small scale industries have to depend heavily on the open market for scarce raw materials. The prices of such raw materials are more than the controlled prices. The larger part of the raw is taken away by the large industries. So small scale industries have to struggle hard for obtaining the raw material. This may be attributed to government's faulty distribution policy of raw materials. All the other incentives, which are provided by the government would have only a marginal impact unless these are accompanied by a regular and uninterrupted supply of raw materials. The Dutt Committee, in this regard states that, " certain components or materials

required by small-scale industries have to be produced on a large scale for economic and technical reasons. We suggest that proper measures should be instituted to ensure that the SSI sector is able to obtain those on fair conditions relating to price, quality and delivery period. One possible method of ensuring these would be to allow only those producers who are themselves not engaged in the business of producing the final product in competition with SSI sector."1 Therefore, a provision is needed to make the existing and intending producers of raw materials in the large scale sector should earmark and also make available a portion of the raw materials to the SSI sector at reasonable prices. The establishment of controllable channels of distribution is also needed. Such channels should be stable and reliable.

Another important challenge before SSI sector is of finance. The small producers require capital for various business activities. But as his assets are negligible and he cannot furnish sufficient security, he cannot obtain the capital from banks. The Industrial Planning Team has admitted that, "in most of the workshops visited, real finance did not seem to exist at all. There was a severe lack of capital as well as of credit".2 The small factories in brass industry, lock industry, shoe industry etc. are commonly rely on dealers for the advance payment. They depend upon dealers while buying raw materials and marketing their products. "Many advantages of large scale production are absent in the case of SSI sector. Hence they cannot cope up with the unequal contest".3 When we consider capital-intensive small scale industries like engineering industry,

the challenge of capital become more acute. Though the government is providing finance through various schemes, such provisions are not adequate. Though public sector banks and co-operative banks offer credit supply to SSI sector on soft conditions. Small producers remain unaffected for the security reasons.

The SSI sector's many productive activities are being constrained by inadequate physical infrastructure. Power is a severe constraint. Small firms cannot afford captive generation. Since it is out of their financial reach. They cannot get regular and sufficient power supply from state electricity board. Transportation and communication also put constraints on the activities of SSI sector. Keshav Das and Sebastian Morris have conducted a survey of small scale industries. They found that 67 per cent small scale industries faced significant infrastructural constraints.<sup>4</sup> Moreover, water supply has been important infrastructural problem in respect of small scale industries related to beverages, tobacco, printing, basic chemicals, paints, varnishes and drugs.

Marketing is one of the basic problems faced by SSI sector. Small units have no special marketing arrangement. So their products compare unfavorably with the quality of the products of large scale industries. SSI sector lag behind in the competition. The small units do not have adequate 'staying capacity' due to shortage of financial resources. The problem of sickness is another important issue before the SSI sector. There were 1,14,132 units categorized as sick units in March, 2007. As far as their viability is considered, very few stand to be viable. As on March, 2003 only 3,626 units out of 1,67,980 SSI units were found to be potentially viable. Some experts suggest for the rehabilitation of sick units. But the such exercise of rehabilitation is found to be costly. The rehabilitation includes re-scheduling of past overdues and also the credit supply with concessional rate of interest. Such units are needed to be modernized and technically upgraded.

The globalization process has adversely affected the SSI sector. The new industrial policy was marked by considerable deregulation and delicensing. The industrial sector opened to both internal and external competition. The government lowered the tariff level. It also removed quantitative restrictions. Due to policy of globalization, SSI sector is threatened by cheaper and better quality goods. Especially, industries like chemicals, silk, auto components, sports, toys, footwear etc. have been confronting a severe

competition in the market. Particularly Chinese products are being posed a serious threat. Such imported products are also forced some small-scale units to close down. Indian toy industry has been through stifling time. It is stated that near about 50 per cent toy manufacturers have already closed their units. It also estimated that the share of Chinese players in the Indian toy market is more than 50 per cent. During 2003-04 to 2005-06 the share of tile imports from china has increased from 39 per cent to 81 per cent. In respect of gifts segment of the ceramic industry, nearabout 80 per cent of the Indian ceramic industry has been controlled by Chinese imports.<sup>5</sup>

#### MEASURES

According to the Report of the Second All India Census of Small Scale Industries Units (1992), financial problem was the reason of closure of 35 per cent of the total units. The marketing problem caused to the failure of 14.4 per cent of the units. Due to non-availability of raw materials 5.6 per cent units were closed down. 2.2 per cent units were downed their shutters due to labour problems. While 19 per cent units reported to have closed for other reasons.<sup>6</sup> Thus it may be said that nearly 50 per cent of closures of small scale units occurred because of either scarcity of working capital or the marketing problems. Hence, government has initiated various measures to solve the basic problems of SSI sector and also to strengthen them.

SIDBI has set up Technology Development and Modernization Fund Scheme for direct assistance of small scale industries to encourage existing industrial units in the small scale sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their production capabilities. Assistance under the scheme is available for meeting the expenditure on purchase of capital equipment, acquisition of technical knowhow, up gradation of process technology and products with thrust on quality improvement, improvement in packaging and cost of TOM & acquisition of ISO-9000 series certification. Units which are already exporting their products or have the potential to export at least 25% of the output by adopting modernisation scheme would be eligible for assistance from the fund provided they have been in operation of atleast 3 years and are not in default to bank/financial institutions. Assistance under the scheme will be need-based subject to a minimum of Rs. 10 lakh per unit. During the Eighth Five Year Plan, a sum of Rs. 70 lakhs was

earmarked for the programme of modernisation of selected small scale industries. Under this scheme it is proposed to prepare modernisation guides, status reports, technology upgradation reports, cluster study reports, units specific study reports and organise contact programme in the form of seminars/workshops for dissemination of information.