ABSTRACT
The small scale and cottage industries face a number of problems. As a result, many small scale units turn sick and a large number have to close down. The magnitude of sickness among the small-sector units would be clear from the fact that at the end of March 2013, as many as 2, 49,903 of these units were sick and an amount of rupees 12,799cr was blocked in them. Let us now consider the main problem that the small scale units have to face.

Keywords: Finance and Credit; Scarcity; State Financial Corporation

INTRODUCTION
Finance and Credit
The scarcity of finance and credit is the main obstacle in the development of small scale units. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial is usually very weak science they generally have partnership or single ownership. The artisans or craftsmen running cottage industries either run their business with whatever capital they possess or take credit from the Mahajans or the traders who supply the raw material to them. In many cases, such credit is obtained on a very high rate of interest and is thus exploitative in character. The small-scale industries are somewhat better placed. However, the profit earned by them is often not enough for investment purpose.

The government of India recognized the importance of credit flow for the development of the small-scale sector and this was a major motivation for bank nationalization setting up of SFCs (state financial corporation) and SIDBI etc. banks were mandated to provide 40 percent of their lending to the priority sector comprising of agriculture, small-scale industry, small roads and water transport operators, small business etc. Although banks have met the priority sector lending targets on papers, their reluctance to lend to SSI units continues on accounts of, what they allege: (1) low recovery rates from the small firms and (2) higher cost of lending to the small firms. Moreover, s noted by Sebastian Morris, banks insist on collateral against the spirit of Reserve banks guidelines. The market value of collateral could be as high as five times the value of the outstanding loans or credit limit. The position of the SSI units in the economic reform phase (the period since 1991) has grown worse as, in a bid to meet the conditionality’s under the structural adjustment programme; the government tries to cut down the expenditure. This, in turn, brought about severe credit restrictions. This put the small firm in, what Sebastian Morris calls, a 'triple bind’ – (1) the first bind is normal effects of credit squeeze which all firms suffer; (2) the second bind is significant and large bias against lending to small firms (with the result that the axe falls first and more severely on the small firms); and (3) the third bind is that the large firms facing a credit squeeze and having market links with small part of their difficulties to the small firms pass on part of their difficulties to the small firms by delaying payments to them or insisting on advance payment/shortening credit to them when they sell.
Infrastructural constraints

In their survey of 1,063 firms, Keshav Das and Sebastian Morris found that as many as 716 firms (or more than 67 per cent) said that they faced significant infrastructural problems. This is very large and confirms the well recognize and popular conceptualization that many productive activities are constrained by inadequate physical infrastructure. The more severe constraint is power. Captive generation at reasonable cost is out of question for small firms. Therefore, they have to depend on State Electricity Boards for meeting their requirements which do not supply regular and adequate power. Moreover because of rampant corruption, many small scale industrialists are forced to make private deals with the electricity officials; otherwise they face a danger of tampering with their meters by the electricians. Transportation and communication infrastructures are also universal constraints. In many SSI units (particularly those related to beverages, tobacco and related products, printing and publishing, basic chemicals paint and varnishes, and drugs and medicines), water supply is fast emerging as an important infrastructural constraint.

Inverted Tariff Structure and Raw Material Availability

As noted earlier, small scale industries contribute significantly to the export earning of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastian Morris, despite imports liberalizations during 1990’s, the tariffs on material like steel, copper and many ferrous metals, plastics, many chemicals, paper etc. remains high in comparison to manufactured goods (other than consumer goods). This has created the problem of a significant ‘inversion’ in tariff structure, which specifically hurts the small firms science they are more labour using and have high material-to-output ratios.

Small scale industries that use local raw material also face a number of problems. For instance, the handloom industry depends for its requirement of cotton on local traders. These traders often supply cotton on the condition that the weavers sell the cloth only to them when it is ready. Thus, the weavers are subjected to double exploitation at the hands of the traders. The traders sell cotton to them at high prices and purchase the ready cloth on low prices.

Machines and other equipments

Machinery and other equipments in many small industries has grown obsolescent. On account of this reason while their cost of production are high, the quality is inferior as compared to the small scale units. Moreover, the small scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernization and rationalisation are urgently required in small scale industries.

OBJECTIVE OF THE STUDY

There is an urgent need for evolving a regular system for up-gradation and collection of data on the small scale industry sector in view of rapid growth and substantial contribution of the SSI sector.

Problems of Marketing

One of the main problems faced by the small scale units is in the field of marketing. These units often do not possess any marketing organization and consequently their product compare unfavorably with the quality of products of the large scale industries. Therefore, they suffer from a competitive disadvantage. Because of the shortage of capital and financial resources, these units do not have adequate ‘staying capacity’ and are often forced to sell their products at un-remunerative prices.

To save small scale units from competition from large scale units the government has reserved certain items for the small scale sector. The Trade Development Authority and the state trading corporation help the small scale industries in organizing their sales. The National Small Industries Corporation set up in 1955 is also helping the small scale units in obtaining government orders and locating export markets.
Delayed Payments

Most of the small scale industries associations’ complaint about the hardships the small entrepreneurs goes through an account of delayed payments by large firms and government departments. Table 7.13 of Sebastian Morris’s study shows that, on an average, the small firms provide 40 days credit to the buyers of their goods and services. But on their principal inputs they get only 14 days credit. In fact, the small firms have very little bargaining power in the markets they operate. On the purchase side, since they buy raw materials and components in small lots, they do not have much bargaining power that is large oligopolistic and monopolistic firms producing materials like steel, plastic, glass, copper etc. at times, they even have to make advance payment to have an assurance of supply. On the other hand, the small firms, when they sell to wholesalers and other firms are often forced to offer extended credit periods. Especially in the dealing with other large firms as subcontractors, this is a major problem. As far as delays in payments from government departments against goods supplied to them under governments purchase programme is concerned, these delays are on account of the cumbersome and complex procedures and rampant corruption in these departments.

Problem of Sickness

There has been an increase of as much as 221 percent in the number of sick micro and small enterprises (MSEs) in a matter of just three years- from 77,723 as at end-march 2010 to 2,49,903 as at end-march 2013. Their outstanding loans have risen by nearly 145 percent over this period, from Rs 5,233 crore to Rs 12,800 crore. Of the 2,49,903 sick MSEs as at end march 2013, only 4,599 units with outstanding credit of Rs 3,926 crore have been found to be potentially viable. This shows that as many as 2,32,525 MSEs are not viable (or potentially viable). This is a serious cause of concern. According to the inter-ministerial committee for Accelerating Manufacturing in Micro, small and medium enterprises sector, “MSMEs, as individuals and collective entities, lack the abilities of the larger enterprises to advocate on economic and functional issues, and therefore come adversely on the receiving end of the unexpected actions of the stakeholders, including the state machinery…..a complex and unfriendly business ecosystem pushes small entrepreneurs towards the informal and unregistered segment, which is growing faster than the organized segment by more than five times, and already accounts for over 95 percent of all MSMEs.”

Poor Database

Another weak link in the chain is the inadequate database for the small scale sector. There are two major sources of information on the small scale sector, viz. Small Industries Development Organization (SIDO) and Central Statistical Organization (CSO). Complete information for the small scale sectors whole is not available from any of these sources. The industrial census data, as available from SIDO, pertain to the reference years 1972, 1987-1988 and 2001-2002 which could be used as benchmarks; however, to arrive at current estimates, necessary adjustments are required to made. The estimates worked out by SIDO every year on the small scale sector, i.e., number of units, employment and production, are subject to limitations, being based on partial returns. CSO data provides coverage of the VSI sector through various surveys. These surveys however, do not distinguish small scale units on the basis of investments in plants and machinery (conducted by NSSO) and provide data for establishments operating with less than 10 workers, i.e., non factory sector units which are not covered in the annual survey of industries (ASI) by CSO. It is not possible to segregate information from these surveys for the small scale industries (sub-sector) from the total VSI sector. Moreover, these surveys are conducted at an interval of 5 years and, as such, the estimates for other years (the years other than the survey year) are -essentially extrapolations. Information through such surveys is available for these years 1978-79, 1984-85, 1989-90 and 1994-95. As correctly pointed out SIDBI report,
Other Problems

In addition to the problems enumerated above, the small scale industries face a number of other problems like insufficient management, unchanging and unresponsive production pattern, burden of local taxes, competition from large scale industries, etc.

According to seventh five year plan, growth of the small scale and village industries has been constrained by a number of factors” including technological obsolescence, inadequate and irregular supply of raw materials, lack of organized market channels, imperfect knowledge of market conditions, unorganized nature of operations, inadequate availability of credit, constraints of infrastructure facilities including power etc. and deficient managerial and technical skills. There has been a lack of effective coordination among the various support organizations set up over the period for the promotion and development of these industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into uneconomic operations and have inhibited there smooth transfer to the medium sector. All these constraints have resulted in a skewed cost structure placing this sector at a disadvantage vis-à-vis the large industries, both in the domestic and export markets”.

Adverse Effect of Economic Reforms and Globalization

The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations,” opening up” the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. these’ reforms’ have had an adverse effect on the small scale sector. Cheaper and better quality imported goods are posing a serious threat to small scale units operating in various industries like chemicals, silk, automotive, toys, sports, footwear etc. the most serious threat is being posed by cheap Chinese imports as the so called china price(which is a rock bottom price) is forcing a many small scaled units to close down. For e.g. since the imports of toys started in 1999-2000 the Indian toys industry has been through a torrid time. A study conducted by associated chamber of commerce and industry( ASSOCHAM)points out that between 2001-12, overall toy imports into India increased at a CAGR (compound annual growth rate) of 25.21% (imports from china and Italy in this period increased at a CAGR of 30% and 38.6% respectively). S a result , near by 40% of Indian toy makers have already closed down in last 5 years and 20% are on the verge to close as far as the gift segment of the ceramic industry is concerned almost 80% of the domestic ceramic industries has been wiped out by Chinese imports. These examples can be multiplied while the cost of production in china are indeed very less as compared to India (because of large economy of scale ), it no doubt true that china is resorting to “dumping” to wipe out competitors in other markets.

CONCLUSION

There is an urgent need for evolving a regular system for up-gradation and collection of data on the SSI(small scale industry) sector in view of rapid growth and substantial contribution of the SSI sector. New units come up every year for different line of production while existing units either diversifies of expand or in certain cases closed down. Up-keep of the latest information is critical for policy decisions.

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