PROJECT REPORT

ON

A STUDY OF THE PROBLEMS OF SICK SMALL SCALE INDUSTRIES IN UTTAR PRADESH AND SUGGESTED STRATEGIES FOR THEIR REVIVAL

Sponsored by

PLANNING COMMISSION
GOVERNMENT OF INDIA

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PREFACE AND ACKNOWLEDGEMENT

The policies of liberalization, globalization and marketization brought out fundamental changes in the business environment in which industries operate. The New Economic Policy followed by Structural Adjustment Programme introduced by Government of India in 1991 substantially changed the rules of business games as far as entry, pricing and host of other decision variables are concerned. This changed the market structure, character and focus of marketing strategies. The changed economic environment has forced Indian corporates to cope up with economic liberalization and globalization policies of the globe. In India too, the entry of MNCs has been promoted and encouraged while impacts of MNCs on business and industrial development have resulted in increased competition and equity participation in manufacturing, processing and marketing of goods and services.

The present study has been planned in seven chapters. Chapter One is introductory one which deals with rationale, objectives and methodology of the study. The main objective of the study is to examine the problems of sick small scale industries in Uttar Pradesh and suggesting policy measures for their revival. Chapter two is concerned with patterns and trends in industrial growth in India and Uttar Pradesh. The chapter focuses on new policy regime, industrial development, FDI inflows, growth trends in industrial development etc. There has been policy neglect in terms of creating favourable investment state, however, the new policy regime has opened opportunity to grow industries. Chapter three is related with scenario of industrial development and sickness in SSI sector in India and particularly in Uttar Pradesh. Chapter four deals with performance of SSIs in Uttar Pradesh. There has been phenomenal growth in SSIs sector in India while it has recorded low in UP. Chapter five is concerned with analysis of survey data. The analysis shows that SSIs are facing problems of manifold. The low productivity, efficiency and performance cause industrial sickness. Chapter six is concerned with problems of sick SSIs in Uttar Pradesh. The main problems are related with availability of quality inputs (raw materials, finances, technology etc.) marketing and managerial efficiency. Chapter seven is related with concluding observations and presents analysis of main findings and policy recommendations.

We take this opportunity of expressing our gratitude to the Planning Commission, Government of India, New Delhi for entrusting the study to the Institute of Development

Studies, Lucknow University. We are thankful to Dr. S.P, Gupta and Dr. D.N. Tiwari, former Members, Planning Commission, Government of India who have provided all kind of support and cooperation. We are also thankful to Mrs. Sudha . P. Rao . Advisor ,SER Division, Planning Commission , Mr. V.K. Agarwal, former Advisor, SER Division, Planning Commission, Government of India who extended their full support for this study.

We are indeed thankful to Prof. A.S. Brar , Vice Chancellor , University of Lucknow for his encouragement and support in the finalization of this study .

We place on record the contribution of Mr. Anis Ansari,Agricultural Production Commissioner , Government of Uttar Pradesh for providing relevant information on the subject. I have my all admirations for Rajat, my son and Sunita my daughter who have continuously encourage me in the finalization of the report.

We are thankful to the faculty and staff members of the Institute of Development Studies, Lucknow University for their help in conducting the said study smoothly. We acknowledge the secretarial assistance rendered by Dr. A. K. Bhatt, IDS and typing of the entire manuscript by Dr. Nimish Gupta and Sri Anshu Pandey of M/s GURU INFOTECH, LUCKNOW our thanks are due to Ms ELITE Printers, Lucknow.

Dedicated
In Loving Memory of my parents

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Executive Summary of The Research Study

On

A Study of The Problems of Sick Small Scale Industries In Uttar Pradesh

And Suggested Strategies For Their Revival

A significant feature of the Indian economy since Independence is the rapid growth of the small industry sector . In the Industrial Policy Resolutions of 1948 and 1956 , the small sector was given special role for creating additional employment with low capital investment. Small and Medium Enterprises play very important role in socio–economic development of our country on account of their inherent advantages like low capital requirement, high employment generation , decentralization of industrial activity, utilization of locally available resources and widening of entrepreneurial base .

This sector is the second largest manpower employer , after agriculture, in our country. A wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro–processors , mini computers , electronic components , electro–medical devices , etc. are manufactured by small and medium enterprises. They make significant contribution in increasing exports , in addition to satisfying domestic demand for several commodities . Prof. P.C. Mahalanobis very accurately points out that " In view of the meagerness of capital resources there is no possibility , in the short run for creating much employment through the factory industries . Now consider the household or cottage industries. They require very little capital . About six or seven hundred rupees would get an artisan family started . With any given investment , employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory industries ."

Despite numerous policy measures during the past four decades, Indian small scale units have remained mostly tiny, technologically backward and tacking in competitive strength. Notwithstanding their lack of competitive strength, small scale industrial units in India could survive due to product and geographical market segmentation and policy protection (Tendulkar et.al. 1997). The business environment has been changing drastically in the recent times. It is to be noted that protection is a transitory measure and can be used only to give time to industrial units to improve their competitive strength. All industrial units, small or large have to sustain themselves in their own competitive strength by successfully facing competitive in market economies. Industrial units have to be competitive and commercially viable.

The present study has been planned in seven chapters. Chapter I is introductory one which deals with rationale, objectives and methodology of the study. The main objective of the study is to diagnose the problems of sick small scale industries in Uttar Pradesh and suggesting policy measures for their revival.

The present study is empirical one and quantitative in approach. It has equally focused on qualitative methods of research. For the purpose of study a comprehensive field survey has been conducted in selected clusters of the state. The selection of clusters has been done purposively with a view to include traditional and modern industries in the sample. It means that a detailed list of industries/ units has been prepared and number of these units/industries has been decided on the basis of total number of sick units/ industries in the selected clusters.

Chapter II is concerned with patterns and trends in industrial growth in India and Uttar Pradesh. The chapter focuses on new policy regime, industrial development, FDI inflows, growth trends in industrial development etc. It has been observed that there has been policy neglect in terms of creating favorable investment climate. However, the new policy regime has opened opportunities to grow industries.

Economic growth slowed from an annual average of 9.6 per cent in 2006-07 to 8.7 percent in 2007-08. Off setting strong growth in services was a slowdown in industrial growth and a marked decline in agricultural performance. Most of the problems for investors arise because of domestic policy, rules and procedure and the FDI policy per se or its rules and procedures. Under the industries, the Government of India has been notifying its Industrial Policy statement from time to time. The policy statement, over the years, has focused on the distinction between the public sector enterprises under the Central Government Industries for which compulsory licensing is required and small scale/ ancillary industries.

Chapter III is related with scenario of industrial development and sickness in SSI sector in India and particularly in Uttar Pradesh. . The medium enterprises has been defined for the first time under the Micro, Small and Medium Enterprises Development (MSMED) Act,2006, which has come into force from 2nd October, 2006.Hence, no firm statistics is available in respect of medium enterprises presently. The statistics relating to medium enterprises would be captured in the 4th All-India Census to be conducted / completed during 2007-09. Informal sources, however, suggest the number of medium enterprises in India to be between 10-15 thousand. Further, it is estimated that they contribute about 2% to GDP, over 5% to the manufacturing output and around 10% to the national exports.

In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowing, factoring service etc. More advanced MSMEs have started realizing the importance of this alternative source of funding to raise resources and the need for adopting better government norms to take advantage of these funding sources. Efforts are on to put in place Limited Liability Partnership Act so as to provide a thrust to the MSMEs in their move towards corporatization. At the end of March 2007, the loan outstanding against the MSE sector from scheduled commercial banks is estimated at over Rs. 90,000 crore ($ 22.5 billion). The incremental credit from scheduled commercial banks to the MSME sector during 2006-2007 is estimated at around Rs 45000 crore. In addition, the MSME sector is estimated to have received funds from emerging sources like venture capital and private equity external commercial borrowing, factoring services etc, to the tune of Rs. 12000 crore ($ 3 billion).

The Ministry of MSME has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) should pave the way for greater corporatization of the Small and Medium Enterprises- there by enhancing their access to equity and other funds from the market of these products in keeping with the global standards. The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate condenses on further trimming this list. The scheme covers collateral free credit facility extended by eligible lending institution to new exiting micro and small enterprises for loans up to Rs. 50 lakh ($ 12,000) per borrowing unit. The guarantee cover is up to 7 per cent of the credit sanctioned 80% in respect of loans up to Rs. Lakh ($12,500), loans provided to MSEs owns/ operated by women and all loans in the North- East Region.

In April, 2005 the performance and credit rating scheme manufacturing MSES was launched, with the objective of assisting the MSE s in obtaining performance-cum- credit rating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme (implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs. 40,000 ($1,000).

For the holistic development of clusters of MSES, the Micro and small enterprises cluster development programme (MSECDP) is implemented. The Programme envisages measures for capacity building, skill development, technology up-gradation of the enterprises, improved credit delivery, marketing support, setting up of common facility centers etc, based on diagnostic studies carried out in consultation with cluster units and their collectives and management of cluster – wise facilities (in phases) all or most of the "Clusters of Micro & Small Enterprises" scattered throughout the country. A high priority has been given to exports from MSE sector. To help MSEs in exporting their products, the following facilities/ incentives are provided:

- Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;
- To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organized in various parts of the country in association with the Indian Institute of Packaging;
- Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individual for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individual as member of a trade delegation going abroad.
- The scheme also offers assistance for sector specific market study by MSE Associations/ Export Promotion Council / Federation of Indian Export Organization;
- Initiating / contesting anti-dumping cases by MSE Associations; and Reimbursement of 75 percent of the one time registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

It has been found that there has been significant growth in number of units, production and export value while employment has increased marginally over the period of 1999–2000 to 2005–06. Again, there has been a growth in number of units, in production, in export value sector during the post reform period. During 2005–06, 123.4 lakh units produced worth Rs. 471244 crores and provided employment to 294.9 lakh persons.

It may be seen that the overall industrial growth rate of the small Scale Industries sector in terms of index of industrial Production (IIP) (Base: 2001-02=100) rose to 12.32% during the year 2005-06 as compared to 10.88% during the year 2004-05. The SSI sector has also consistently registered a higher growth rate as compared to the overall manufacturing sector. The contribution of the small scale industries in GDP has been almost same since 1999–2000 to 2003–04. The total SSI production has also been very similar from 1999–2000 onwards till 2003–2004.

The total employment from SSI sector (including SSSBEs) in the country as per the third All India Census of SSIs conducted with the reference year of 2001-02 was 249.33 lakh numbers. Units operated with fixed premises are treated as SSIs. As per the estimates compiled for the year 2005-06, the employment was 294.91 lakh persons in SSI sector. The share of SSIs in the total employment among units engaged in manufacturing and services is around 34.93%. A little over nine lakh units out of over 11 million SSI unit are registered and a large proportion are in manufacturing sector and the total employment in the registered segment of SSI is more than 5.1 million. Again, most of it is in the manufacturing sector.

11 percent of the small scale units are located in Uttar Pradesh, over one third of registered SSI units are located in four southern states. Six states, namely, Assam, Bihar, Chhattisgarh, Jharkhand, Orissa and West Bengal account for just about 13 percent of total SSI units. Further over a quarter of units are located in three states in the western region. This distribution bears out the fact that there is serious regional imbalance as far as the distribution of SSIs in concerned.

According to the Khadi and Village industries commission, Govt. of India, there has been subsequent increase in the production of both Khadi and Village industries from 2001-01 to 2004-05.the total production was worth Rs. 6923.26 crores in 2000-2001 and it increased to Rs. 10920.43 crores in 2004-2005. In 1997-08 there were around 45771 units and in 2006-07, it increased to 1, 27,323 units. For allied services like construction of small roads and facilities for water transport etc the balance outstanding in 2006-07 was 25138 and balance outstanding for setting up of industrial estates was 324 crores.Various views have been expressed by experts and social scientists on the causes of industrial sickness.

Before analyzing the various causes, it is worthwhile to discuss in brief the criteria for identification of sickness. A unit may be considered sick if it has incurred cash loss for one year and in the judgment of the bank it is likely to continue to incur cash losses for the current year as well as the following year and the unit has an imbalance in its financial structure such as current ratio of less than 1: 1 and worsening debt equity ratio. The other features of sickness may be:

- Continuous default in meeting for consecutive half yearly installments of interest of Principal of institutional loans;
- Continuous cash loss for a period or two years of continued erosion in the net worth by 50 percent or more;
- Mounting arrears on account of statutory or other liabilities for period of one or two years, and
- There are consisting irregularities in operation of credit limits.

According to the Sick Industrial Companies Act, 1985, sick industrial company means an industrial company which has at the end of financial year accumulated losses equal to or exceeding its entire net worth and has also sustained cash losses in such financial year and the financial year immediately proceeding such financial year. But small scale industries and some other industries do not come under the purview of the said Act.

Reports and circulars issued by the RBI for Restructuring of SSIs in India are:

- Comments and recommendations in the Kohli Committee Report (2000) and the Report of the Working Group on Flow of Credit to SSI Sector (2004).
- RBI Circular – Policy Package for Stepping up Credit to Small and Medium Enterprises (RBI/2005-06/131RPCD.PLNFS. BC.No.31/ 06.02.31/ 2005-06 – August 19, 2005)
- RBI Circular – Guidelines on One-Time Settlement Scheme for SME Accounts. (RBI/2005-06/153RPCD.PLNFS. BC.No.39 / 06.02.31/ 2005-06, September 3, 2005)
- RBI Circular – Debt restructuring mechanism for Small and Medium Enterprises (SMEs) (RBI/2005-06/159 DBOD. BP. BC. No. 34 / 21.04.132/ 2005-06, September 8, 2005)
- RBI/2008-09/352– Collateral Free Loans - Micro and Small Enterprises
- (RPCD.SME&NFS.BC.No 84A/06.02.31(P)/2008-09, January 20, 2009)

Chapter IV is related to performance of SSIs in Uttar Pradesh. It has been noted that while there has been phenomenal growth in SSIs sector in India, the same has been low in U.P.The share of U.P. in the industrial level is well below what may be considered reasonable. U.P. contributes only 6.5 % of gross value of output and 5.5 % of net value added at the country level. It is a matter of concern that the relative position of state in the industrial economy is slipping back as other states are moving at a faster pace. Again, U.P.'s share in total proposed investment through IEM's in the country between August 1991 and November 2007 was a meager 5.3. In per capita term proposed investment in U.P. has been less than one-third of India.The inflow of foreign investment into the state has been even

less. U.P. could get a paltry sum of Rs. 2252 crore during January 1997 and April 2006 as foreign direct investment approvals, which was a mere 1.04 percent of the total FDI approvals of Rs. 2,17,487 crore in the country.

The FDI equity uniflows in the state is negligible in the period from April 2000 to July 2008. It is almost 0.02% of the total FDI equity inflows. Maharashtra leads in this sector with almost 32 % of equity inflows. U.P. ranks 15th in the FDI equity inflows.

Lending by financial institutions, which is indicative of investment attractiveness & industrial growth of a state are extremely low in UP considering its size and population. For instance UP's share in bank loans has declined from 5.15% in 2001 to 3.30 % in 2006.Credit-deposit ratio in the state is much lower than the national average.

It can be seen that in 2001–02 the number of LOIs issued was 1695 but in 2006–07 it came down to 360. The capital investments have also come down from Rs. 43386 crores in 2001–02 to Rs. 9782 crores in 2006–07. The working days have also come down from 425125 in 2001–02 to 101152 in 2006–07.

According to the Directorate of Industries there were 177859 registered units in U.P. in 2001–02 which increased significantly in 2005–06 and 2006–07 to 552117 and 580604 respectively. The capital investment has also increased from 1793 crores in 2001–02 to 5901 crores in 2006–07. There has been a drastic improvement in employment regeneration also i.e. it has increased from 863 thousand in 2006–07. Estimated Production has also gone up from 347 crores in 2001–02 to 944 crores in 2006–07.

Around 3.22 Lakhs units were financed by the Khadi and village industries board in 2006–07, loan under Khadi & village industries commission plan was Rs. 9476 Lakhs. Production was Rs. 1830 lakhs in 2006–07, employment was around 9.26 lakhs there were 5793 skilled workers in 2006–07, around 111 cooperative societies were registered and 13 cooperative societies were disintegrated. Khadi production was around Rs. 48.14 Lakhs, and sales were of Rs. 40.44 Lakhs and Rs. 592.78 Lakhs was recovered through loans.

Various organizations for assisting Small and Medium Entrepreneurs

Various organizations have been set up by the Central and State governments and banks to support the development of the small scale enterprises . The main organizations are as follows : –

I . Central Government

- National Board for Micro , Small and Medium Enterprises .
- Small Industries Development Organization (SIDO) .
- Micro , Small and Medium Industries Services Institute .
- National Small Industries Corporation Limited .(NSIC).
- National Institute for Micro , Small and Medium Enterprises (NIMSME).
- Entrepreneurship Development Institute of India .

II . State Government

- District Industries Centers (DIC)
- State Financial Corporations (SFCs)
- State Industrial Development Corporations/ State Industrial Investment Corporations(SIDC/SIIC)
- State Small Industries Development Corporation (SSIDC)

- Khadi and Village Industries Commission (KVIC).

III . Financial Institutions / Banks

- Small Industries Development Bank of India (SIDBI)
- Commercial Banks .
- Regional Rural Banks
- Cooperative Banks
- National Bank for Agriculture and Rural Development (NABARD)

IV . Organizations promoted by the Government/ Banks/ Financial Institutions

- Technical Consultancy Organization in various states.
- India SME Technology Services Ltd.
- SIDBI Venture Capital Ltd.
- Credit Guarantee Fund Trust for Micro and Small Industries
- India SME Asset Reconstructing Company (ISARC).

V . Industry Associations

- Consortium of Women Entrepreneurs in India (CWEI)
- Confederation of Indian Industry
- Federation of Indian Chamber of Commerce and Industries (FICCI)
- Associated Chamber of Commerce and Industries in India (ASSOCHAM)
- World Association of Small and Medium Enterprises (WASME) Federation of Association of Small Scale Industries (FASSI) .

Technology up – gradation for Small Scale Industries

The Government of India has decided to continue the following 4 schemes during the 11th Plan period (2007–2012) to assist small scale industries for technology up –gradation .

- Credit Linked Capital Subsidy Scheme for Technology UP–gradation of Small Industries (CLCSS).
- Technology Up–gradation Fund Scheme (TUFS) for Textile and Jute Industry .
- Scheme of Technology Up– gradation / Setting – up / Modernization / Expansion of Food Processing Industries .
- Integrated Development of Leather Sector Scheme (IDLSS).

Chapter V is concerned with analysis of survey data. Analysis shows that SSIs are facing manifold problems. The low productivity, efficiency and performance cause industrial sickness. A total of 395 industries were selected for detailed survey. In this chapter, analysis of information, data and facts pertaining to nature, working, management and problems of small scale industries has been made. Emerging trends, patterns, issues and perspective have been analyzed in this part of the report.

Most of the industries were running round the year (63.79 per cent) while slightly less than one third industries were also found running on seasonal basis. A small proportion of industries was reported to be running on the basis of part time while proportion of sectoral industries was recorded highest in Agra (78.26 per cent) and lowest in Varanasi – Mirzapur.

Chapter VI addresses problems of sick SSIs in Uttar Pradesh. The main problems are related with availability of quality inputs (raw material, finance, technology etc.) marketing and managerial efficiency. Despite of several strengths of SSI's, the entrepreneurs in the state of Uttar Pradesh are facing several problems, constraints are challenges. The small industry is confronted with number of problems, constraints, hurdles, hazards, limitations and rigidities, some of which some are old and chronic whereas the others are new and complicated.

Problems of Small and Medium Enterprises

Small and Medium Enterprises face problems relating to project implementation, production, marketing, finance, administration etc. The identified problems in U.P. may be summarized as: –

I . Problems relating to Project Implementation

- Non– availability of land at the selected site .
- Non– availability/ difficulty in procuring construction materials like cement steeel etc.
- Delay in delivery of machines
- Difficulties/delay in tying up financial arrangements with other financial institutions and banks .
- Inability of the promoters to bring in funds to the extent proposed.
- Delay in disbursement of assistance due to non– compliance of the major terms and conditions of the loan agreement.
- Delay in getting power connection , water connection , permission of concerned authorities to discharge effluents , etc .
- Changes in certain project concepts due to subsequent detailed advice received from collaborators/ consultants .
- Increase in project cost under different heads due to price escalation , underestimation of cost , etc.
- Siphoning of funds by the promoters from the project by unfair practices .

II . Problems relating to Production

- Non– availability of raw materials or increase in the price of raw materials without a corresponding increase in sale price of the products.
- Non– availability of important infrastructure facilities like power , water , transport etc.
- Unsatisfactory performance of certain machines resulting in low production due to lack of routine and preventive maintenance leading to frequent breakdown .
- Lack of coordination between marketing and production planning .
- Obsolescence of the manufacturing process following technological development.

III . Problems relating to Marketing

- Introduction of better substitutes .
- Entry of many new manufacturers leading to cut–throat competition .
- Dependence of the unit on one buyer/ very few buyers .

- Poor quality of products.
- Lack of sales promotion.
- Poor delivery schedules and lack of proper distribution system.

IV . Problems relating to Finance

- Low promoters contribution .
- High debt– equity ratio leading to high interest burden .
- Inadequate bank finance .
- Lack of proper follow up action for realization of debts .
- Lack of proper planning to pay creditors .
- Diversion of working capital funds for acquisition of fixed assets .

V . Problems relating to Management

- Dissension within the management .
- Absence of man power planning .
- Poor industrial relations .
- Lack of coordination and control .
- Non– availability of skilled man– power .

The Chapter VII focuses on the concluding observations which presents analysis of main findings and policy recommendations. India has significantly changed the policy environment and has forced domestic firms to review their strategies. The success of the new policy regime may well depend on the strategies adopted by these firms and the fine tuning of policies that impinge on firm level choices. An in–depth analysis of corporate strategies in the post 1991 era can provide useful insights in the corporate decision making process and pointers for refinement policy.Uttar Pradesh, on its own could be the world's seventieth largest country by population. It is regarded as the nerve center of the country. The state treasures its rich cultural and historical traditions as much as its political clout in India. The state has sensibly spotted industrial opportunity in agro based processed products. Apart from sugar mills, paper rollers, cotton mills, alcohol fermentation, oil seed squeezers and so on. Uttar Pradesh has thrived on floriculture, mushroom farming, dairy products and value added horticulture produce. With the national processed foods market poised to grow rapidly over the next few decades, Uttar Pradesh is in great shape to serve itself up as the right place to set up production units.

Reforms in SSI sector are crucial for India to emerge as a competitive manufacturing base. SSI showed a growth rate of 12.32 per cent in 2005-06 onwards and the sector growth rates have been higher than the industry as a whole which was 8.10 percent in 2005-06. However, official estimates put SSI sickness at 10 per cent, while unofficial estimates put SSI sickness at 40 per cent.

The small scale sector has grown steadily and occupied an important place in the economy. Contribution of the sector in terms of generation of employment, output and exports are quite significant. The number of registered units in SSI sector according to the 3rd All Idia Census of SSIs, 2001-2002 are 901,000 units and in the SSIs units in registered manufacturing sector are 870 ,000 units . The gross output for SSIs is Rs 1951 billion for registered sector and 1907 billion in manufacturing SSIs . Employment for SSIs for registered amd manufacturing sectors are 51,51,000

and 50,20,000 respectively. In the state of Uttar Pradesh, registered SSIs were reported to be 580604units, which provide employment to 2247 thousand persons and produced worth of Rs. 944 crores during 2006–2007. The survey findings demonstrate that most of the entrepreneurs use intermediate and traditional technology of production. They also face problems in getting timely supply of raw materials since they do not have institutional arrangements for raw material supply. More than half of the entrepreneurs have received financial assistance; however, there is gap between amount of loan applied and loan received. Again, most of the entrepreneurs do not advertise their product and conduct marketing research. Thus, they face marketing problems.

The factors affecting business are ranked by the surveyed entrepreneurs in the following manner : (i) adverse market conditions, (ii) erratic supply of power, (iii) labour problem, (iv) management problem, (v) technological upgradation, (vi) government policy in respect of excise duty, (vii) pollution and environmental legislations, (viii) recessionary trend, (ix) rise in cost of production, (x) scarcity raw materials, (xi) global corruption, (xii) delayed/ inadequate availability of raw materials, (xiii) delayed payment and recovery, (xiv) inadequate infrastructure, (xv) disequilibrium between demand and supply, and (xvi) low quality standards.

Recommendations and Strategies for revival of SSIs in Uttar Pradesh

- Manufacturing capabilities should be developed to a level where products are competitive across global markets in terms of price, quality, technology, delivery of services. To achieve this, Indian firms should be enabled to access the latest technology from across the globe, indigenous research and development innovation need to be encouraged and a passion for manufacturing needs to be created while infrastructure, public services and utilities should be improved and made more efficient to assist manufacturing growth. Government, industry, research institutions and academicians should be facilitated and encouraged to work in collaboration to improve industry capabilities. Moreover, firms should be able to obtain funds easily and cheaply, and be encouraged to invest in developing technology.
- To improve standard of living through manufacturing growth, workers should be enabled to move from lower value added to higher value added jobs. SSIs and cottage industries should be encouraged to grow and become competitive. Moreover, education should focus on fostering a culture that encourage innovation and manufacturing so that people are training for alternate avenues of employment.
- Government must eliminate all reservations in SSI sector, standing with 63 items which constitute over 80 per cent of the total output of SSI sector. State governments and industry bodies have to take a lead to identify SSI clusters, promote cooperation between business and local authorities for cluster development, and formulate policies that attract investment to these clusters.
- 100 per cent FDI should be allowed in all except a few strategic sectors. FDI restrictions in retail need to removed to support by actions in associated areas like granting tax benefits, enabling ease of technology transfer, easing labour regulations, removing SSI restrictions, facilitating easy setting up of business and enabling infrastructure in the country.
- Considering The urgency of taking an early lead in attaining technological competitiveness of SSIs, both in the domestic and industrial markets, it is important to stimulate and usher in a technological revolution among SSIs. Attainment of international competitiveness of SSIs through technological upgradation should be treated as priority and a mission by the state government. The ultimate aim of State Technology Mission should be to enable the SSIs to assimilate new technologies though appropriate utilization and modification and also to strengthen indigenous technological infrastructure including R & D institutions and enterprise linkages, industrial engineering design, consultancy services etc. It can be very useful if it deals with identification of new products and technologies and proper transfer of the same, advice and information of product innovation, design,

better management practices, financial resources, marketing research, process automation and last but not the least tying up with MNCs and large Indian companies as ancillaries for outsourcing their requirement from SSIs along with technology packages.

- It is recommended that a State Technology Development Fund for small industries be established in the state to act as the main conduct of transmission mechanism of the Sate Mission on Technology. The fund should be routed through SIDBI because it is the principal financial institution for SSIs. The fund should support SSI units in absorbing technology transfer costs, meeting with initial ground work related expenditure. The fund should initiate efforts at the earliest to set up technology packages, clusters for SSIs in important zones to promote induction of new technologies, incremental innovations and effective transfer.
- The industrial estates can provide the following facilities in addition to developed plots and buildings such as (i) common utilities like power, water, electricity, industrial gas, compressed air etc., (ii) offsite facilities like water tanks, storages, fuel supplies etc., (iii) common effluent treatment and disposal, (iv) communication facilities, (v) secretarial facilities, (vi) staff housing, (vii) transport facility, (viii) medical facility, (ix) fire protection services etc.
- It is recommended that central facilities should be established for small and tiny sectors for liaison work and market development. These SSIs should also be availed the benefits of product exhibition for export.
- It is also recommended that State Technology Information Bank should be established in the state to make a mission of spreading knowledge about every aspect of technology to all small scale industries situated at every part of the state. It should act as a central Document Centre by sourcing, collecting and disseminating information regarding the availability of technology developed technologies as well as technologies available in the country and abroad.
- Fiscal incentives should be provided to SSIs for technical modernization. Exemption from excise duty on goods manufactured by SSIs, tax holiday and tax reduction to SSIs sponsoring research and technological development, zero customs duty for all goods imported to use in R & D projects by SSIs, providing equity capital to SSIs and providing financial support for research and development institutions to transfer technology. Excise duty waiver on indigenous equipment spare parts, consumables and prototypes produced by commercial entities in the small scale sector as against currently limited to non–commercial scientific and industrial research organizational needs. Policy attention, providing financial assistance to such research and development institutions engaged in developing indigenous technology or adaptation of improved technology for commercial application in SSIs on soft terms may also be considered.
- There has to be change in the mind set of individual entrepreneurs to recognize the changing reality and to move as far as possible to change and adopt. This can be catalyzed by efforts by industry associations. The associations and other forms of intermediate local government structure in step with needs of local industry play a pivotal role in aiding government to develop a cluster approach. It is necessary that the industry associations help in establishing both backward and forward linkages for sustenance and development of small industries.
- The recommendations of the various circulars and committee reports of RBI should be implemented minimize the financial problem, authorities can minimize the time taken for loan sanctioning and ensure the collateral free loans at the time of requirement.
- The following promotional measures are suggested for SSI sector (i) ban on entry of medium and large units into the manufacture of such products which are served for small scale sector, (ii) excise duty and sales tax exemptions/ concession; (iii) government and PSU should make their purchase for SSI sector, (iv) adequate infrastructure facilities like land and building, technical consultancy and finance, (v) small units can adopt a group approach to ensure efficient management with a view to reduce the cost of production. (vi) to make U.P. attractive to industrialists for investment.

Strategies For Revival of SSIs:

1. To encourage private and govt. participation in industrial and social development.
2. To create industrial friendly atmosphere for industry.
3. Developing necessary infrastructure.
4. New small scale and tiny units in 29 districts of eastern region and 7 districts of Bundelkhand should be given capital subsidy equal to 10% of this investment subject to a maximum of Rs. 5 lacs. A capital subsidy fund of Rs. 250 lacs should be created for this purpose.
5. New small scale and tiny units have to be given interest subsidy of 5 % (subject to a maximum of Rs. 2.5 lacs annually) for 5 years on loan from banks/financial institutions.
6. Creation of an industrial estate infrastructure Development fund which should be at the disposal of a committee comprising of entrepreneurs.
7. Purchase of technology and provision of common facility centers must be managed through ASIDE scheme.
8. District level Shram Bandhu should be set up under the Chairmanship of D.M. having members of industries associations and DIC. Complaints should be heard and resolved by Shram Bandhu.
9. Publicity of Uttar Pradesh should be made through an interactive website by the greater use of information technology.
10. Monthly teleconferencing/video conferencing must be organized enabling entrepreneurs throughout the state to interact with senior officers and professionals.
11. Small scale and tiny units should be exempted from land use change charge for change of agriculture land to industrial purpose.
12. Stamp duty must be admissible to Industrial Estates of UPSIDC as applicable to the plots of Industrial Estates of Directorate of Industries.
13. While fixing the circle rates, circle rates for the Industrial purposes should be declared separately.
14. Policy guidelines must be to ensure cluster based industrial development.
15. A system of providing testing and certification facilities to small scale and tiny units, specially those which want to contribute in the filed of exports, should be established by the State Government.
16. Adequate steps must be adopted to sustain and strengthen the traditional knowledge, skills and capabilities of weavers , to revitalize the institutional structure to enrich human resource skills and capabilities;
17. There is almost a total vacuum in the field of reliable data in the handloom sector making it imperative to establish an effective MIS for the sector. Giving priority to this work, a detailed database have to be collected containing following information:-
    a) Weavers and weaver families;
    b) Handloom clusters;
    c) Product varieties and regional traditions;
    d) Details of supplier of raw-materials;
    e) Designs, patterns and other intellectual properties;

f) List of exporters;

g) List of buyers; and

h) Information about marketing events.

18. The rates of trade tax on raw material for handloom industry must be rationalized after studying rates prevailing in other states.
19. Dyes and chemicals are supplied through National Handloom Development Corporation. AZO free dyes and eco-friendly colors and chemicals should be encouraged through direct purchase.
20. Uttar Pradesh Handloom Corporation has to be revitalized by capital infusion, reduction in manpower and renovation of showrooms under Deen Dayal Handloom Promotion Scheme.
21. Areas/district should be identified for herbal plants, pottery, leather; food processing and handicraft units and they should be provided integrated facilities of product development, new designs, marketing, raw material and technology.
22. An Export Processing Loan Fund has to be created to export products of hand made paper industry. Marketing of khadi & village industry products for foreign tourists, specially on Buddhist Tourism Circuit must be ensured.
23. Special facility must be provided for establishment of khadi & village industry units for SC, ST, OBC, women and ex-servicemen.
24. Loan should be provided to khadi & village industries in rural areas, specially in the programmes of development of new infrastructure facilities, from the banks without any security/ collateral security as recommended by RBI in its circular issued in January 2009.
25. A close supervision and follow up is necessary to take corrective steps at the appropriate time . Following suggestions can be considered for avoiding or tackling the problems of SMEs,

- Proper appraisal of the Project .
- Implementation of the Project according to the time schedule .
- Disbursements of funds according to the requirement of the project .
- Modernization / Expansion / Diversification of the project .
- Detection of sickness and taking corrective steps at the Incipient stage .

CONTENTS

CHAPTER – I

RATIONALE, OBJECTIVES AND METHODOLOGY OF STUDY

India provides an interesting case for the study of the impact of industrial policies and institutional arrangements upon industrial growth and patterns of industrial transformation because the two periods viz. 1951–91 and post 1991 represent policy regimes, institutional frameworks, an industrial development patterns, making possible systematic analysis and the generation of hypothesis concerning causal relationships. Since 1991, Indian policy makers have tried to learn from the East Asian experiences and they have been under pressure from the International Monetary Fund (IMF), the World Bank and other global actors to liberalize and open up the Indian economy to the world market.

During the colonial period, when India was a part of British India, industrial policies and economic policies in general were essentially shaped by British interests, but the role of state in the country's industrial development was discussed intensively among Indian business representatives and leading politicians of Indian National Congress several years before independence. The brief review of 1948 resolution supported the view that a planned economy and private sector supplement the production. India's industrial policies were changed in the mid 1950s towards increasing state participation in production and more comprehensive operational controls over private industry. In the important industrial policy resolution, adopted by Parliament in 1956, the industrial approval system was developed into a very comprehensive system of control over the private industrial sector. The 1956 Resolution argued that the adoption of socialist pattern of society as national objective would require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector (Martinussen 2000).

Over the period from 1950–1990, the Indian economy underwent significant political change. The contribution of industry to GDP went up from around 15% in 1950 to almost 30% in 1990. This relative increase was due mainly to significant growth of output and value added in the manufacturing sector. However, in the 1980s, a powerful academic lobby emerged against the policy regime of controls and regulations. The new policy regime marked a fundamental break with the past. They drastically reduced the degree of state regulations in several respects and introduced a more market friendly and open economy policy environment. This led to increased competition while on the other hand opened the opportunities for business process reengineering, outsourcing, technology transfer, foreign collaboration, joint venture ship, foreign investment etc. However, increasing competition and free market environment led to industrial sickness due to failure in coping with changes and managerial inefficiency (Martinussen 2000).

Small scale industries constitute an important and crucial segment of the industrial sector. This sector has enjoyed the status of priority sector in terms of bank lending. Importantly, several internal and external factors have put considerable pressure on the performance of the small scale industries resulting in industrial sickness. Of late, the incidence of sickness in SSI sector is showing an increasing trend and a large number of SSI units were found potentially non–viable. To address the problem of industrial sickness in SSI sector, a working group on rehabilitation of sick SSIs was constituted by RBI, as it's Chairman Sri. S.S. Kohli in November 2000. The group has submitted the report and the recommendations have been accepted by the RBI.

There has been an increasing realization of a need to introduce the concept of small and medium enterprises (SMEs) in place of small scale industries (SSI). SMEs represent over 80 per

cent of the industrial base of most of the developed countries and so most of these countries have a concept of SMEs, rather than SSIs. Importantly, there is a growing recognition world wide that SMEs have an important role to play in the present context given their greater resource use efficiency, capacity for employment generation, technological innovations, promoting inter–sectoral linkages, raising exports and developing entrepreneurial skills. Historically, the small scale industries worked as an engine of growth in both developed and developing countries. The long–term Indian development experience, set in larger context, shows that the case for SSIs need to be examined against the broad context of changing socio–economic milieu, shifting paradigms and levels of techno–economic development. In the new economic policy regime, the daunting challenges confronting the economy in general and the SSIs in particular force policy makers to look at the future with some trepidation.

Concept of Small Scale Industries :

All countries do not use the same definition for classifying their SME sector. Nor does universal definition appear to be necessary. The definition in use depends on the purpose these definitions are required to serve and the policies which govern the SME sector thus defined.

Chart – 1 : Definition of SMEs in Asia and Other Countries

Country	Category of Industry	Criteria/ Country's Official Definition	Measure
North America USA	Very small Enterprise Small Enterprise Medium Enterprise	< 20 Employees 20–99 Employees 100–199 Employees	Employment
Canada	Manufacturing	Independent Firms having < 200 employees	Employment
Latin America Maxico	Micro Small Meium	<15 employees and gross income/ sales < US$ 175,000 15–99 employees and gross income/ sales < US$ 175,000 100—249 employees and gross income/ sales < US$ 3,500,000	Employment and gross income/ sale
Europe Belgium	SME	Annual Staff average of 50 employees, annual turnover (VAT excluded) ECU–4.2 million, balance sheet total of ECU 2.1 million	Employement and annual turnover
Denmark	Manufacturing	<500 empeloyees, production units with more than 5 employees	Employment
France	SME	10–199 Employees	Employment
Germany	SME	< 500 employees	Employment
Grece	Small Enterprises Medium Enterprises	< 50 employees 50–500 employees	Employment
Ireland	SME	< 500 employees	Employment
Itlay	Small Enterprises	< 200 employees	Employment

Netherlands	Small Enterprises Medium Enterprises	< 10 employees 10–100 employees	
Portugal	SME	< 500 employees < Esc 2400 million in sales (value for 1993) is not controlled more than 50 per cent of any company (nor does it hold more than 50 per cent of any other company)	Employment and sales
Spain	Small Enterprises Medium Enterprises	< 200 emeployes < 500 employees	Employment
Sweden	SME	Autonomous firrms with < 200 employees	Employment
Switzerland	SME	No fixed definition	
United Kingdom	SME	No fiexed definition	
Asia China	SME	Depends on product group usually < 100 employees, investment ceiling 30 million Yuan	Eemployemnt And investment
Indonesia	SME	< 100 emploeyees	Employmenet
Japan	Manufacturing Wholesale Trade Retail Trade and Services	< 300 emploeyees or asset capitalization < 100 million < 50 employees or asset capitalization < 30 million yen	Employment and Asset
Korea	Manufacturing Services	< 500 employees < 20 employees	Employment
Singapore	Manufacturing Services	< S$ 12 million fixed asseets < 100 employees	Fixed Assets Employment
Vietnam	SME	No fixed definition, generally < 200 employees	Employment

The three parameters generally applied by most countries, single or in combination are : (i) capital investment in plant and machinery; (ii) number of workers employed; (iii) volume of production (turnover of business). Despite the lack of universal quantitative norms, the SMEs as a class are clearly distinguishable in any country. The factors that set them apart are essentially qualitative and competitive. On the qualitative side are their internal management structures, decision–making processes, financial practices, trading styles, attendant risk factor etc. The definition used by the Indian authorities is based on the level of investment in plant, machinery or other fixed assets whether held on an ownership, lease or hire purchase basis. It seeks to keep in view the socio–economic environment in India, where capital is scarce and labour is abundant. The definition as recently revised places an investment–limit on plant and machinery of Rs. 30 million for a small scale unit. Units with investment not exceeding Rs. 2.5 million are classified as tiny units. The Government of India notification dated December 10, 1947, classified a SSI unit as an undertaking with an investment in fixed assets in plant and machinery upto Rs. 3 crore. Within the SSIs, units with investment in plant and machinery upto Rs. 25 lakh are termed as tiny industry. The ceiling on investment in plant and machinery was reached to Rs. 100 lakh with effect from December 24, 1999. But the manifold increase in the credit needs

to SMEs blurred the distinction between small and medium enterprises.

SSIs were first defined in 1950 on the basis of twin criteria of gross investment in fixed assets and work force. The workforce criteria was changed from a per day basis to a per shift basis in 1958, and finally dropped from the definition of SSIs in 1960. Since 1966, the original value of the plant and machinery has been revised periodically since 1966. The current limit of gross investment in plant and machinery for SSI units is Rs. 10 million. The cut off limits for preferential has been revised from time to time to accommodate the changes in the price indices, emerging needs of the industry for additional investments in machinery/ laboratory equipment, pollution control equipment, modernization, technology upgradation, products standardization etc. besides providing greater export thrust and other considerations of protection of SSIs. S.P. Gupta Committee on Development of Small Enterprises recommended that the orbit of financing of enterprises needs to be amended from small to medium enterprises (SMEs) eliminated and a three tier definition for tiny sector (upto Rs. 10 lakh investment in plant & machinery), SSI sector (above Rs. 10 lakh upto Rs. 100 lakh in plant and machinery) and medium sector (Rs. 1 crore to Rs. 10 crore in plant and machinery).

In India, the small scale industries were given due importance in the process of industrialization as far back as 1951. The Industries Development and Regulation Act legislated by the Central Government in that year became the framework for the small scale industrial sectors development. The reservation policy was introduced in 1967 in an attempt to protect SSIs from competition, 44 goods were reserved for SSIs. Large corporations were allowed to enter this sector on condition that 50 per cent of their produce would be exported. As a result, SSIs dominated readymade garments, leather goods, auto parts, electrical appliances and hand tools industries.

Policy Shift :

India's small industry policy has been a widely known phenomenon. The relative merits of less capital intensity and more labour absorption capacity among others have endeared the sector to the policy makers as an instrument to achieve a variety of economic objectives, such as employment generation, production of mass consumption goods, balanced regional development and equitable distribution of income. During the pre–reform period (1947–48 to 1990–91), SSIs emphasized protected growth of the sector with a two strong strategy, developing institutional network and offering protective benefits (Chart 2). As a result, qualitative performance assumed more importance in the process, quality and efficiency suffered.

Chart – 2 : Protective Framework for SSI

Sl.	Policy Measure	Implication
1	Demarcation Through Definition	Eligibility to avail all concessions, benefits and incentives meant for SSI.
2	Concessional Finance	Lower Cost of Capital
3	Priority Sector Lending	Ensures the flow of a certain percentage of bank credit to SSI.
4	Fiscal Incentives	Wide ranging tax benefits. As a result, low or negligible tax payments
5	Price Preference	If quality is comparable, SSI Products are preferred to large industry products for government departments.
6	Reserevation of Items for	Assured market for SSI manufacturing

	exclusive Government Purchases	of reserve items.
7	Reservation of items for exclusive manufacturing in SSI	Virtually prevents any kind of competition from large scale units have to export 75% of the output if obtained license to manufacture a reserved item.
8	Preferential access to Raw materials and liberal import policy	Assured supply of scarce raw materials, both domestic and foreign and easier access to capital goods imports.
9	Exemption from industrial licensing and labour policy.	More operational freedom and further protection from competition since rest of industry in subject to industrial licensing and labour policy.

The New Industrial Policy introduced in July 1991 marked the beginning of economic reforms in India. The basic elements of industrial liberalization comprised the elimination of all entry barriers to most industries as well as the associated countries on scale and technology. Industrial liberalization was complemented by trade liberalization in the form of drastic reduction in customs duties and renewal of restriction on imports of raw materials, intermediates and capital goods. The new policy has proposed clear guidelines to deal with the three major areas of concern for the sector: (i) finance, (ii) marketing and; (iii) technology (Chart–3). The major policy initiatives for SSI in the 1990's are shown in Chart–4. These measures are related to technology upgradation and modernization, finance and marketing (Balasubramanyam, 2000).

Chart – 3 : New Small Industry Policy 1991

Sl.	Major Features	Objectives
1.	Emphasis to shift from subsidised/ cheap credit to adequate credit.	
2.	Equity participation by other undertaking, domestic/ foreign upto 24 per cent	To meet the emerging demand for credit.
3.	Introduction of forthcoming services through Banks	
4.	Marketing of mass consumption goods under common brand name NSIC	To strengthen small industry marketing
5.	Industry association to be involved in setting up subcontracting exchanges.	
6	Technology Development Cell in Small Industries Development Organization (SIDO)	To upgrade technology and promote modernization.
7	Industry association to establish quality counselling and common testing facilities	
8	Technology Information Centres	
9	Reoriented modernization and technology upgradation programmes – cluster based approach.	

Source : Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises, Ministry of Industry, Government of India, New Delhi.

Chart – 4 : New Policy Initiatives for SSIs in 1990s

Sl.	Technology	Finance	Marketing
1	Technology Bureau for small industry by SIDBI and APCTT	Factoring services by SIDBI and Public Sector Banks	Sub Contracting exchanges by Industry Associations.
2	Quality counselling and Common Facilities Centres by Industry Associations	SIDBI Branches in SSI Cluster	Access to International exhibitions by SIDBI and NSIC
3	Exhibitions for Technology purchase from or joint venture with foreign SME enterprises by Ministry of Industry and UNIDO in different cities of India	Exclusive bank branches in SSI concentrated districts	Credit rating arrangement for SSI by SIDBI with Dun and Bradstreet and information on Potential foreign byers
4	Technology Development and Modernization fund by SIDBI	Scope of the national equity fund extended to the whole country except metropolitan areas to support expansion, modernization and technological upgradation	
5	Technology Development Trust funds involving central and state government and industry association to bring technology upgradation in rural areas and facilitate technology transfer from SMEs abroad among others.		
6	Collaborative programmes of State Bank of India and SIDBI for modernization and technology upgradation of SSI clusters.		

In India, the definition of small scale industries is mainly in terms of investment ceilings, which have changed over the years to keep pace with economic development. Therefore, SME category would provide the fillip in providing the much needed technological advancement and upgradation, optimum sales of economy, and vertical growth. The change in size and level of operation would lead to corporatization of SME's and it should also have integration with broader markets. All these would obviously facilitate seamless growth of small to medium and eventually even to large scale units. This would also attract more foreign investment in this

sector.

The following points emerge from the analysis of trends on SMEs across the countries (India's Manufacturing Sector Policy Framework, 2003 : 68) :

1. Since 1997, the number of SMEs in Sri Lanka has increased 3 folds. Liberalization enabled the higher utilization of capacities due to free availability of equipment, plant and machinery, tools and raw materials. This in turn, contributed towards setting up of new business, expansion of existing enterprises and also improvement of quality standards of goods and services provided by SMEs.
2. Almost 73 per cent of SMEs in Sri Lanka are involved in manufacturing. At present about 50,000 registered and 1,25,000 unregistered manufacturing units are in operation in comparison to the approximately 1000 large industry units. SMEs contribute 86 per cent of the industrial establishments. SMEs contribute almost 18 per cent of industrial output, 17 per cent of value added and account for about 24 per cent of industrial sector employment.
3. During 1960s, Singapore had granted tariff protection to labour intensive, export oriented manufacturing industries and others that generate jobs. During early years of economic reforms, China promoted the township and village enterprises. It resulted in enhanced contribution of the sector (39 per cent) to GDP. China adopted policies in favour of labour intensive goods. Korea and Malaysia also followed the similar policies.
4. The Governments of Japan and Korea promoted labour intensive small scale enterprises through special credit facilities and protective government regulations in their period of rapid economic growth.

The small scale sector has grown steadily and occupied an important place in the economy. Contribution of the sector in terms of generation of employment, output and exports is quite significant. The number of registered units in SSI sector has increased from 0.42 million as at the end Mach 1974 to 3.37 million at the end of March 2001. The Small Scale Industry sector accounts for 95 per cent of the industrial units; 40 per cent of output of the manufacturing sector, 35 per cent of the total exports and provides employment to around 17 million persons. The sector covers a wide spectrum of industries categorized under small, tiny and ancillary segments. In fact, it encompasses the continuum of the artisans, handicrafts units at one end and modern production units; with significant investments, on the other, producing a wide range of over 7,500 products. The sector acts as a nursery for the development of entrepreneurship talent. The SSI sector has been receiving special attention from the policy makers in addressing its requirements, be it audit, marketing, technology and entrepreneurship development, fiscal or infrastructural support.

Despite numerous policy measures during the past four and half decades, Indian small scale units have remained mostly tiny, technologically backward and tacking in competitive strength. The post liberalized business environment has become harsh for the small scale industries sector because of increased internal and external competition. In addition, the far reaching impact of the various WTO norms are now threatening to further affect the fortunes of small and medium enterprises.

Industrial sickness is the key event of modern industrial age, and incidence of sickness has been growing in such a large proportions that in the wake of industrial development, a large number of new units covering all types of units in small, large and medium sectors are added in this category. The rapid growth and magnitude of industrial sickness is puzzling issue not only for present but also for all time to come. The society is also affected by the phenomenon of industrial sickness, as unemployment in the wake of retrenchment of workers, spreads widely

leading to them out of jobs. It also affects availability of goods and services and price soar far. The share holders lost their hard earned savings, creditors loss their cash and future prospects of business. Besides entrepreneurs, managers face numerous problems, difficulties in wake of closing down their units or at low productivity that leads financial loss. While the official figures show only about 10 per cent of the over 32 lakh SSI units as sick, the unofficial figures put this figure at 40 per cent. As per information available from SIDBI, Lucknow, out of 3.58 lakh SSI units, 0.53 lakh units were sick in the state of Uttar Pradesh in the year 2000. Thus, about 15 per cent of SSI units were reported to be sick in the state of Uttar Pradesh. In the state of Uttar Pradesh, major industrial clusters are facing problems in terms of availability of finance, technological upgradation, functioning of the industrial units and marketing of the produced products and goods. Even, a majority of the industries belonging to SSI sector have been closed down in major industrial belts such as Kanpur–Unnao–Etwah–Ghaziabad–Modinagar–Meerut, Saharanpur–Moradabad etc. Against this perspective, the present study has been conducted in Uttar Pradesh to assess the magnitude of the industrial sickness particularly industries belonging to SSI sector. The study is also aimed at to evolve suitable strategies for their revival and effective functioning.

Objectives of the Present Study :

The Main objectives of the present study are as follows:

(i) To study the magnitude of industrial sickness in India and especially the state of Uttar Pradesh;
(ii) To analyze the various factors of industrial sickness in the state and to find out the causes of low productivity in the state;
(iii) To study the impact of industrial sickness, especially in small sector on productivity and industrial growth and also on society at large;
(iv) To analyze the impact of remedial measures; adopted by government, financial institutions and entrepreneurs on productivity and industrial growth;
(v) To study and analyze the problems being faced by SSI entrepreneurs on causes of sickness especially non–availability of bank credit, quality control, in–conducive industrial environment etc.
(vi) To analyze the view perceptions of stake holders such as bankers, financial institutions, electricity board, industry associations, etc. regarding reasons for sickness including NPAs and also to get views regarding proper rehabilitation plan for sick SSI units;
(vii) To estimate the number of sick SSI units that may be revived and suggest possible remedial measures for the same.
(viii) Finally to suggest Policy measures for restructuring the sick units in terms of industrial revivalism and enhancing productivity and also to suggest strategy to arrest the reversing trends, i.e. sickness in terms of low productivity and financial loss.

Hypotheses :

The following hypotheses are proposed to be empirically tested :

i. Industrial sickness has caused due to economic slow down, marketing competition and changed business environment;
ii. Small scale industrial units suffer from tough competition from large industries as well as multinational companies in terms of marketing and procuring raw materials;

iii. Small scale industrial units are facing financial crunch for technological upgradation and utilization of installed capacity;
iv. SSI units are facing challenges from financial delay and financial support from government sector;
v. SSI units are also facing problems due to withdrawal of support from government organizations in terms of purchase of goods and products, extending technical and marketing support and financial assistance.

Methodology :

The present study is empirical one and quantitative in approach. It has equally focused on qualitative methods of research. For the purpose of study a comprehensive field survey has been conducted in selected clusters of the state. The selection of clusters has been done purposively with a view to include traditional and modern industries in the sample. It means that a detailed list of industries/ units has been prepared and number of these units/industries has been decided on the basis of total number of sick units/ industries in the selected clusters. Selection of Bhadohi – Mirzapur, Modinagar – Ghaziabad, Kanpur – Etawah, Agra – Firozabad and Moradabad – Saharanpur has been done for detailed analysis. Again 395 sick units/ industries have been selected. Apart from Primary data, Secondary and published documented data has been collected through various sources and analyzed accordingly. To make the study more meaningful and policy oriented available literature and studies have been consulted and reviewed. It was also thought proper that view perceptions of entrepreneurs, officials of financial institutions and government agencies/departments including electricity board, industry associations may be sought out through structured questionnaires to suggest the suitable policy measures. We have also interacted with the representatives of financial and banking institutions as well as other government departments for indepth discussions so that their observations may be considered for evolving the strategies of the revival of sick industrial units. Primary data have been collected through interview schedule. Apart form this field observations and open ended discussion have also been equally considered and incorporated in the present study. The filled in questionnaires were thoroughly scrutinized and processed in computer for drawing out inferences, patterns, trends and conclusions. The primary data in tabular form has been discussed, interpreted and analyzed while critical appreciation of pertinent literature has been ensured in the report. The policy recommendations are based on analysis of research findings and critical review of pertinent literature.

CHAPTER – II

PATTERNS AND TRENDS IN INDUSTRIAL GROWTH OF INDIA AND UTTAR PRADESH

The economic policies adopted by India in the early 1950s provided for exclusive government regulation of the private industrial sector, the establishment of a large public industrial sector, and import controls that virtually insulated domestic industry from international competition. Policy changes during 1990s provided a new industrial framework shaping policy implementation and resulted in increased competition, growth of MNCs and policy shifts in development and management of industries. The new policy regime also provided opportunities as well as threat to Indian industries. These are in terms of business process re–engineering, total quality management, technological development, R & D, outsourcing, financial marketing etc. India's industrial policies, the institutional arrangements for their implementation and the wider institutional setting all have impacted upon the country's industrial development. The early restrictive policies and the bureaucratic hurdles adversely affected both Indian and foreign investments in general. India's industrial performance has improved in certain respects as a consequences of the new policies adopted after 1991. Against this backdrop, present chapter purports to review the industrial performance and growth in India and Uttar Pradesh (Martinussen, 2000 : 77).

India provides an interesting case for the study of the impact of industrial policies and institutional arrangements upon industrial growth and patterns of industrial transformation because of the differences between the two periods i.e. 1951–91 and after 1991. They represent different policy regimes, institutional frameworks and industrial development patterns, making possible systematic analysis and the generation of hypothesis concerning casual relationships. Especially since 1991, Indian policy makers have tried to learn from the East–Asian experiences and they have been under pressure from the IMF, the World Bank and other institutions global actors to liberalize and open up the Indian economy to the world market.

The economic policies adopted by India in the early 1950s provided for extensive government regulation of the private industrial sector, the establishment of a large public industrial sector, and import controls that virtually insulted domestic industry from international competitors. Policy changes did occur during the four decades between 1951 and 1991, but then fundamental Policy principles and the institutional framework shaping policy implementation and impact essentially remained the same.

India's industrial policies, the institutional arrangements for their implementation and the wider institutional setting all impacted upon the country's industrial development in various ways. The industrial approval system contributed to industrial diversification in a national context. India achieved a much more diversified industrial structure during the period. By the 1970s, India's industrial structure was more diversified than the industrial structures in most other developing countries. The expansion of the public industrial sector further added to diversification and creation of linkages to basic and capital goods industries. However, the approval system did not reduce the technology gap. It did not contribute to India's catching up with industrialized countries in terms of technological development. The approval system did not prevent concentration of economic power in the private sector. Finally, the system did not promote development of small scale industry, but rather acted as an entry barrier for new comers (Martinussen, 2000 : 112). As a result, India's international competitiveness suffered. India's share of world as well as developing countries in manufactured exports decreased in 1960s and 1970s and the recovery in the 1980s did not compensate for the ground lost in the previous

decades. Thus, India's share of world manufactured exports declined from 0.84 per cent in 1962 to only 0.41 per cent in 1980. By the 1990s, the share had increased again to 0.54 per cent. India's share of developing country in manufactured exports declined remarkably from 22.1 per cent in 1962 to 3.4 per cent in 1980 (Kathuria, 1997 : 154). The several incentives provided for small scale units in India have protected the small enterprises which have actively availed themselves of government support. But the overall impact has been different than infested by the policy makers in several respects. The actual impacts of TNC operations in India during 1974–90 are shown in the chart – 2.1.

Chart – 2.1 : Impact of TNC Operation in India during 1974–90

Capital	Insignificant net inflow • The TNCs raised most of the investment capital to the Indian capital market, pre–empted scarce local capital resources and crowded out Indian borrowers. • Dividend remittances increased and remained above pre–FERA level for almost a decade. • Technical payments increased. • Foreign participation in corporate capital formation decreased continuously in relative terms.
Technology	Transitory reluctance followed by increased inflow But : • Costly over import • Problems with advanced technology and updating • Problems with technical support
Export	Export performance at par with Indian companies • High import propensity then Indian competitors • Some import substitution but negative balance of payments effects.
Diversification	TNCs did contribute re–allocation in favour of manufacturing and technology intensive sub–sectors. But • Preemption of growth opportunities and substitution of Indian capital in several promising areas. • Increased foreign influences in key sectors.

Over the period from 1950 to 1990, the Indian economy underwent significant structural change. The contribution of industry to GDP went up from around 15 per cent in 1950 to almost 30 per cent in 1990. This relative increase was mainly due to significant growth of output and value added in the manufacturing sector. India's industrial development during 1951 to 1966 was characterized by high ratio of growth of industrial output, concentrated on capital goods and metal based industries in public sector. During 1966 to 1980, the industrial development in India was characterized by significantly slower growth, mainly due to the slow down in public investment and low productivity growth in the public industrial sector. During 1980 to 1990, industrial development witnessed a gradual recovery of industrial growth, with consumer durables exhibiting the fastest growth followed by capital goods (Mukherjee, 1997 : 28). In the 1980s, a powerful academic lobby emerged against the policy regime of controls and regulations. The external and internal companions in the early 1990s led to the economic crisis and new economic policies were adopted by India in 1991 which contributed a break with the

past. The chart – 2.2 shows the reform process and its implications :

Chart – 2.2 : Summary of the Indian Reform Process

Year	Industrial Licensing Policy	Trade Policy	Foreign Investment
1991	Licensing abolished except for 18 industries	Rupee devaluation Foreign trading houses with 51% equity Tradable EXIM scripts based on export earnings to bring about partial convertibility on current account. Peak rates reduced from 300% to 150%.	Automatic approval up to 51% equity holding. Foreign Investment Promotion Board setup. 100% holding for export–oriented units.
1992	Further delicensing Streamlining of procedures National Renewal Fund set up to take care of displaced labour.	Limited negative list for imports QRs on most intermediate and capital goods scrapped. EXIM scripts replaced by Liberalized Exchange Rate Management System (LERMS). Peak rates reduced to 110% Reduction of duty on project imports and permission for second hand capital goods.	Extension of approval criteria. Use of foreign brand and trade names. Easing of repatriation criteria.
1993	Motor cars delicensed; Leather delicensed Garments dereserved from small–scale industry subject to 75% exports	Peak rates reduced to 85% Export Promotion Capital Goods (EPCG) extended to service sector (duty free imports against exports). Overall reduction of tariffs and easing for capital and project imports.	Attention shifts to foreign portfolio investment; foreign institutional investors permitted to set up operations in India.
1994	Pharmaceuticals sector liberalized Employee assistance centres set up	Full current account convertibility Peak rates reduced further. Capital and project goods tariffs brought down to 25–35%.	Foreign entry into consumer goods sector begins, subject to repatriation constraints. Liberalized entry into the pharma sector.
1995	Concentration on pro–cedures. Special attention to export oriented units/ export promotion zone schemes.	Larger consumer goods imports allowed under expanded Special Import Licence Scheme (against export earnings). Peak tariff rates reduced to 50%, average rate to 33%.	Various non–resident Indian incentive schemes introduced.
1996	Entertainment electronics removed from compulsory licensing. Number of industries requiring licensing is down to fourteen from eighteen in 1991.	Negative list of imports reduced by forty items. Average tariff rate reduced to 27%.	Foreign Investment Promotion Council set up. Foreign equity permissible increased to 74%.
1997	Licensed industries	Further movements from special import	Guidelines for non–

	reduced to nine.	license to open general licence and from restricted list to special import licence. Peak tariff rates down to 40% and average rate to 25%.	automatic approvals introduced. Structure of limits on equity investments formalized.

In July 1991, the Government of India announced drastic changes in the industrial and foreign trade policies. Since then, further liberalizations have been introduced every year with each new budget. The changes that have been included are:

- Abolition of licencing in most industrial sectors;
- Removal of most of the regulations restricting the growth of large companies;
- Opening up many areas to the private sector previously reserved for development by the public sector;
- Removal of numerous regulations pertaining to foreign investment and transnational business collaborations (mainly contained in FERA before 1991);
- Introduction of various incentives to encourage technology transfers in general and foreign investment in high priority industries in particular;
- Partly freeing of foreign trade from government interference; and
- Steps to make the Rupee fully convertible on the current account (not the capital account).

The new economic policies marked a fundamental break with the past. They drastically reduced the degree of state regulations in several respects and introduced a much more market friendly and open economy policy environment. This considerably changed the climate for Indian and foreign investment as well as for transnational technical cooperation and strategic alliances. There is widespread agreement among both Indian and foreign investors that business opportunities in India improved after 1991. The following are the outcomes of new industrial policies (Martinussen, 2000 : 950) :

- Costly and time consuming controls have been abolished. Until 1991, the industrial approval implied that private investors and companies had to spend considerable time and resources to obtain the necessary clearances. Most of the big companies had to maintain a special lobbying unit in Delhi to deal with government officials both formally and informally to speed up the approval procedures. After 1991, much fewer approvals are needed from the central government. Most clearances which are still required can be obtained at state government level.
- It has been made easier for big companies to expand monopolies and respective trade practices legislation has been radically changed so that even big companies with market share above one third can expand their production and sales without prior approval from the government.
- Several sectors which used to be reserved for the public sector have been opened up for private investment and in some of the sectors, special incentives are offered to foreign investors.
- Foreign majority ownership is now allowed as the general rule while before the general rule allowed only 40 per cent of foreign ownership.
- Quantitative import restrictions have been abolished and tariffs lowered. On average, weighted tariffs were brought down from 87 per cent in 1991 to less than 30 per cent in 1997.
- Convertibility of the rupee on the current account has been introduced. This change

of policy has been an improvement.

However, it appears that broad agreement has emerged among Indian industrialists that the new policy framework has introduced certain biases in favour of foreign companies and new foreign investors, the following are the disadvantages for Indian promoters and companies vis–a–vis new foreign investors (Martinussen, 2000 : 152) :

- Foreign investors can access capital funds abroad at much lower interest rates than Indian promoters can obtain in India.
- Indian companies pay customs duties on all their imports while foreign companies can obtain exemption.
- Sales tax in relation to interstate transfers applies only to Indian companies.
- While Indian companies have to pay excise duty immediately, foreign companies can often postpone their payment.

It appears warranted to conclude that while India's post 1991 industrial policies reflected attempts at accommodating more than before the interests of foreign capital, the institutional arrangement for their implementation embodied biases mainly in favour of large India based companies with established relations with government bureaucracies. Companies involved in India's industrial development through investment and trade can be divided into categories according to their status in relation to the pre and post 1991 regulatory frameworks. At least five main categories may be identified in the following manner :

- Indian controlled companies and groups of companies which previously, until 1991 came under the purview of MRTP Act. These are the big India companies and business houses.
- Foreign controlled companies established in India before 1991 which until 1991, were affected by the FERA and at the same time come under the MRTP Act. These are the big foreign branches and subsidiaries of transnational corporations with foreign equity at 40 per cent and above.
- Foreign companies considering establishing manufacturing branches or subsidiaries and entering into strategic alliances in India after 1991.
- Foreign companies interested only in trading with India.
- Indian companies not covered by the MRTP Act, including small and medium sized companies.

The new economic policies in some areas reflect so much emphasis on attracting foreign investment and facilitating international trade, reflect less attention to the interests of India based industrial enterprises. Despite the deep crisis in 1991–92, annual growth rates from 1992–97 accounted to 6.8 per cent. However, the growth rate from the post reform period has not been significantly higher than for the 1980, with an annual compound growth rate of 5.5 per cent. Besides, the growth rate declined after 1997. Manufacturing registered a growth rate of around 8 per cent per annum during 1980s. This growth of manufacturing as well as overall industrial growth has fluctuated significantly over the last decade with the marked tendency to slow down after 1997. India experienced a strong boom with annual export of growth around 19 per cent in the mid 1990s. However, export growth slipped to only 5.6 per cent in 1996–97 and further to around 2 per cent in 1998. It is to be noted that Indian and foreign investment intensions after 1995 have showed declining trend. There is no indication that proposed investments have increased recently. It may be noted that implementation of IEM's have been slow. By November 1948, announcement of commercial production had been initiated for less than 19 per cent of the investment proposed. Moreover, during 1991 to 1998, actual inflow as approved FDI in India was 29.3 per cent while only 14 per cent NRI investment was reported against total actual FDI

inflow in India. Net foreign direct investment as per cent of GDP has been reported to be 0.4 per cent during 1991–96 as compared to 0.1 per cent during 1983–91 in India. Thus, net FDI as percentage of GDP has declined in post reform period in India while in China, Indonesia and other developing countries, this showed remarkably much increased share. Moreover, the increase in net private capital inflows as percentage of GDP has remained very modest, up from 1.4 to 1.5 per cent of GDP. This is clearly disappointing as seen from the Indian policy maker's perception.

Increasing Competition and Indian Industry :

After liberalization, the pressure of competition has increased and its nature has also changed with several ramifications. These phenomena have instilled a variety of fears in the minds of entrepreneurs and industrialists, some of which were the timing of exposure to competition; the sudden opening up of the economy, the loss of protected environment which means encroachment on their protected turf by other players; insure cases loss of monopolistic control over the market; loss of market share through cheaper and superior products; complete loss of market with technological obsolescence or with new products based on superior technology entering the market; loss of control or ownership of a unit loss of control over supply of inputs; loss of easy or guaranteed access to finance; loss of highly qualified professionals, etc. to the competitors; and in some cases, the lack of making decisions by the government (Parande, 2000 : 124). Importantly, Indian industries feel threatened in the changing competition. Basically there are two scenarios – (i) competition between the large and medium industries, and (ii) competition between them and the SSI sector. The small scale industry is troubled about the invasion of its territory by the medium and large scale units and wants to be protected against them. Medium scale units seek shelter against large units. Large industry, in turn, wants to be protected against other large units in the country and also against the foreign units and their products and services (Parande, 2000 : 125).

Not only is competition increasing up in terms of products offered marketing tactics, post–sales services etc., its nature itself is also changing. The character of market is now changing from the seller's market to a buyer's market. With the opening up of the country's borders, the markets are now flooded with latest and technologically superior products and services from all over the world. Many substitutes to the existing products are now on offer, representing a threat to the established products. Consumer has a much wider choice of products, services and suppliers. Thus, consumer movement is gaining momentum. Significantly, the nature of customer's demand is also changing. The customer is expecting better quality and return of the value of products and services. Companies can no longer expect to sell what they produce. They must only produce what customers will buy. Consequently, companies are not paying greater attention to produce better quality internationally competitive products. The changed situation has encouraged technological upgradation with improvement in efficiency, greater attention to quality, competitive pricing, better post–sales services and customer satisfaction etc. (Parande, 2000 : 127). Competition is also seen in organized and unorganized sector too. The organized sector is characterized by heavy investment in technology and high labour productivity but the unorganized sector suffers from lack of resources and poor efficiency resulting from low technological research support.

In the past, large and medium industries had their own strength, enjoyed almost monopoly. As a result of globalization and liberalization policy, whoever can bargain effectively in the international market is allowed, within the given parameters to negotiate and fix his own terms and conditions with the suppliers and thus obtain sophisticated technology with greater ease. Such opportunities are also to be fund in respect of joint ventures, technological

collaborations, agreements or marketing arrangement etc. where considerable relaxations have been introduced in the new policy, and firms are free to clinch any suitable arrangements as per the criteria fixed by the government.

As a part of the process of globalization, the New Economic Policy included resources for facilitating the entry into India of NRI's and foreign companies including MNCs and for incorporating FDI, technological collaborations, joint ventures etc. Now, these measures have already impacted on industrial development. The pace and nature of the MNCs entry have become a subject of serious debate while some would prefer limited and phased entry for them, other advocate their free entry and argue that real competition is encouraged only wider the pressure of MNCs. The following points have emerged from analysis of changed business environment and Indian industry responses (Parande, 2000 : 159):

- Foreign technology has no longer remained a pressure of only a few, and anybody with enterprise and resources can strike his own deal without too much formality. Such opportunity is also available in respect of joint ventures, technical collaboration agreements, or marketing arrangements etc. where considerable relaxations have been introduced.
- The SSI units have also been expressing concern about competition from MNCs. However, this fear is not well founded, because the nature, quality and quantity of their products as also their production pattern is so different from products of foreign companies.
- In fact, MNCs may actually help the SSI through greater demand for spare parts, components, semi–finished products etc. which the larger foreign firms will not find in economic produce on their own.
- The Indian industry claims that it is not afraid of MNCs, *per se,* but it is their unbridled entry which is causing it more unease.
- The fear that the entry of MNCs will spell doom for the Indian industry has not come true. Country to the general impression, a large part of the FDI has been in areas critical for development.

Indian Manufacturing At Cross Roads :

India's manufacturing sector is undergoing a transformation, from a protected environment, to one of open trade and global competition. Despite progressive liberalization of policies over the last decade, the sector's performance has not been in proportion to the potential. Slow pace of reforms, mismatch between policy intent and implementation and inadequate development of key enables like infrastructure, utilities, R & D and labour have combined to keep India lagging behind most other developing economies in industrial and manufacturing growth. As the world is moving towards more open and free trade, India needs strong policy decisions and effective implementation to emerge as a strong global economy (India's Manufacturing Sector Policy Framework, 2003 : 25). The major contributor to India's economy today is the service sector, followed by industry. Nearly 75 per cent of India's GDP comes from these two sectors. Of this, services contributes 45 per cent and industry 30 per cent of which manufacturing accounts for 19 per cent. Manufacturing is a key building block of the economy, since growth in this sector will have a complementary effect on the services sector as well. India is today a strong regional power, which has the potential to become a significant global power in the future. There is an opportunity to leverage India's strategic location, engineering and design skills and workforce to emerge as a global nuts for manufacturing and services. While India faces stiff competition from China and other South East Asian countries, which enjoy most of the advantages of India and also have their economies. These developments

have placed Indian manufacturing at cross roads today (India's Manufacturing Sector Policy Framework, 2003 : 26).

India's manufacturing sector has been registering a healthy growth right from the 1990s to the present. In fact, growth in manufacturing has consistently outstripped the overall growth in GDP. During 1980s, growth rate in manufacturing was reported to be 7.3 per cent (8.0 per cent is registered manufacturing and 6.2 per cent in unorganized manufacturing) while during 1990s, the growth in manufacturing sector was recorded much high i.e. 9.3 per cent (10.2 per cent in case of registered manufacturing and 7.5 per cent in case of unorganized manufacturing). In terms of employment, the manufacturing sector employed nearly 30.5 per million people in 1999 out of which the majority (78 per cent) were in small scale industries, khadi and village industries.

Growth Trends :

Economic growth slowed from an annual average of 9.6 per cent in 2006-07 to 8.7 percent in 2007-08 (table – 2.1). Off setting strong growth in services was a slowdown in industrial growth and a marked decline in agricultural performance.

Table 2.1 : Growth Rates in Indian Industry Sector

Particulars	2006-07 (CAGR)	2007-08 (CAGR)
GDP at Factor Cost	9.6	8.7
1. Mining & Quarrying	5.7	3.4
2. Manufacturing	12.0	9.4
3. Electricity, Gas and Power	6.0	7.8
4. Constructors	12.0	9.6
1. Trade, hotels, transport communicators	11.8	12.1
2. Financing, Insurance, Real Estate and other services	13.9	11.7
3. Community, Social and Professional services	6.9	7.0

Source: The Hindu Survey of Industry 2008.

Overall, India's economy performed well in the 1980s, and even better after the reforms of early 1990s. GDP growth accelerated from only 3.5 per cent a year in 1960s and 1970s to nearly 7 per cent a year between 1992–93 and 1996–97. Growth was led by industry and services in the 1980s and by services in the 1990s. Importantly, structural reforms stimulated industrial and services growth and investment in the early 1990s (India's Sustaining Reforms and Reducing Poverty, 2003 : 2). The industrial sector grew 7.6 per cent a year, and manufacturing 9.8 per cent a year, in real terms from 1992–93 to 1996–97. Private investment in industry grew by 20.1 per cent a year in real terms over the same period. But, the momentum slowed in the second half of the decade, with industrial growth averaging only 4.5 per cent a year and manufacturing growth only 3.8 per cent during 1997–98 to 2001–02. Growth in private investment in industry actually fall 3.4 per cent a year during 1997–98 to 2000–01. The manufacturing sector in India accounts for only 16.8 per cent of GDP, compared with 35 per cent in China and 25–35 per cent in the South East Asian countries. Importantly, No significant increase in India's penetration of world markets in industrial products has been observed over

the decade, with the share of non–agricultural exports in world exports of the same commodities increasing only marginally from 0.5 per cent in 1990–91 to 0.55 per cent in 2000–01. Even so, India has achieved a prominent position in global services, today accounting for 1.4 per cent of global exports in services (India's Sustaining Reforms and Reducing Poverty, 2003 : 56).

Table – 2.2 shows growth rates in industrial production. In general, growth in industrial production has been high in 2006–07 than the growth rate of 2000–01. However, sharp fluctuations have been reflected in the growth trends.

Table : 2.2 Sector-Wise Index Numbers Of Industrial Production

(Base: 1993-94=100)

Year/ Month	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1	2	3	4	5	6	7	8	9	10	11	12	13
Mining & quarrying (Weight : 10.47)												
2000-01	121.2	128.3	125.3	126.0	126.3	124.0	129.8	131.2	138.5	141.5	127.9	143.2
2001-02	123.1	125.8	120.2	122.7	127.1	129.4	134.7	136.0	140.9	144.8	130.6	147.8
2002-03	127.5	135.7	131.0	137.6	134.3	130.7	140.3	141.0	149.5	148.2	140.0	159.0
2003-04	135.5	142.1	138.5	141.6	136.0	136.6	143.6	148.4	157.8	161.1	155.0	167.1
2004-05	147.8	149.7	142.3	147.5	142.0	143.6	152.5	153.8	165.4	165.3	152.5	178.1
2005-06	151.9	157.5	149.2	144.7	138.4	140.8	152.3	150.5	165.2	168.6	158.3	181.6
2006-07	157.1	162.0	156.2	152.1	136.0	146.8	161.3	163.8	175.3	181.5	170.1	196.2
2007-08 P	161.2	168.1	158.6	157.0	156.0	154.0	169.6	174.2	184.1	186.7	183.6	205.8
Manufacturing (Weight : 79.36)												
2000-01	161.9	164.7	159.7	161.3	162.1	163.9	160.7	168.4	178.0	175.8	173.8	184.9
2001-02	166.2	167.6	165.2	165.9	167.4	166.2	166.3	172.2	183.3	183.0	178.9	190.5
2002-03	172.9	174.3	172.1	177.0	178.2	178.8	178.5	179.6	195.4	196.2	191.6	202.7
2003-04	180.3	185.9	184.0	191.1	190.2	193.1	191.2	195.6	210.7	212.2	206.1	219.1
2004-05	196.1	199.8	198.9	207.1	207.5	213.3	213.9	212.4	231.4	230.4	221.3	242.9
2005-06	214.2	222.4	225.2	219.5	225.2	232.2	237.2	227.3	246.3	252.0	241.6	267.4
2006-07	237.7	252.0	249.4	250.9	252.1	261.7	246.3	266.3	282.1	282.9	270.7	310.3
2007-08 P	267.1	280.5	273.6	272.9	279.2	281.0	280.2	278.9	306.3	301.9	296.8	327.9
Electricity (Weight : 10.17)												
2000-01	151.1	155.6	147.7	149.5	154.1	152.9	158.5	154.3	159.0	158.6	147.2	164.5
2001-02	153.3	160.3	150.8	156.6	158.3	160.0	158.2	158.0	165.6	165.0	151.4	173.0
2002-03	161.2	163.9	156.6	166.2	164.8	159.4	169.4	163.6	170.3	172.4	152.3	171.9
2003-04	164.3	172.5	165.1	163.8	166.8	169.0	173.8	171.4	179.5	183.0	172.0	190.2

2004-05	181.3	177.8	172.5	186.3	179.2	182.0	179.8	177.3	187.5	187.4	170.7	196.3
2005-06	187.0	196.4	189.0	184.6	193.4	180.6	193.7	183.3	193.8	199.4	186.3	203.0
2006-07	198.0	206.3	198.3	201.1	201.4	201.0	212.4	199.3	211.5	215.9	192.5	219.1
2007-08 P	215.2	225.6	211.7	216.2	219.9	210.1	221.4	210.9	219.6	223.8	211.3	227.1
General (Weight : 100.00)												
2000-01	156.5	160.0	154.9	156.4	157.5	158.6	157.2	163.1	171.9	170.2	166.0	177.1
2001-02	160.4	162.5	159	160.4	162.2	161.7	162.2	167.0	177.1	176.9	170.3	184.2
2002-03	167.0	169.2	166.2	171.8	172.2	171.8	173.6	173.9	188.0	188.8	182.2	195.0
2003-04	174.0	180.0	177	183.1	182.1	184.7	184.4	188.2	202.0	203.9	197.3	210.7
2004-05	189.5	192.3	190.3	198.7	197.8	202.8	204.0	202.7	220.0	219.2	208.9	231.4
2005-06	204.9	213.0	213.6	208.1	212.9	219.4	223.9	214.8	232.5	237.9	227.3	251.9
2006-07	225.2	237.9	234.4	235.5	234.8	243.5	234.0	248.8	263.7	265.5	252.2	289.1
2007-08 P	250.7	263.1	255.3	255.0	260.3	260.5	262.6	261.0	284.7	281.9	276.2	304.9

P: Provisional

Source :- Central Statistical Organization, Government of India

The given table - 2.3 presents a picture of sector wise growth of industrial production with the base year of 1993-94.it can be seen that there has been a constant increase in all the major sectors namely missing and quarrying, manufacturing, Electricity and general industrial production, in all the months

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Table 2.3 : Index Numbers Of Industrial Production

(PERCENT)

Year	Mining & Quarrying	Manufacturing	Electricity	General
1	2	3	4	5
(Base : 1993-94=100)				
Weight	10.5	79.4	10.2	100.0
1994-95	9.8	9.1	8.5	9.1
1995-96	9.8	14.1	8.1	13.1
1996-97	-2.0	7.3	4.0	6.1
1997-98	7.0	6.6	6.6	6.6
1998-99	-0.8	4.4	6.4	4.1
1999-00	1.0	7.2	7.3	6.6
2000-01	2.8	5.4	4.0	4.9
2001-02	1.3	2.9	3.1	2.8
2002-03	5.8	6.0	3.2	5.8
2003-04	5.3	7.4	5.0	7.0
2004-05	4.4	9.1	5.2	8.4
2005-06	1.0	9.1	5.2	8.2
2006-07	5.3	12.5	7.3	11.5
2007-08 P	5.1	9.0	6.3	8.5

P:- Provisional
Source :- Central Statistical Organization, Government of India

Policy Framework of FDI in India :

Most of the problems for investors arise because of domestic policy, rules and procedure and the FDI policy per se or its rules and procedures. Under the industries, the Government of India has been notifying its Industrial Policy statement from time to time. The policy statement, over the years, have been focused on the distinction between the public sector enterprises under the Central Government, industries for which compulsory licensing is required and small scale/ ancillary industries. The Industrial Policy reform of 1991 makes a watershed as it introduced significant changes in the erstwhile industrial policy through pruning the list of industries reserved under Schedule I and II. Efforts towards further liberalization have since then continued. Schedule III industries or small scale industries refer to industrial undertakings with investment in fixed assets not exceeding Rs. 10 million. Such units can manufacture any item and are also generally free from location restrictions imposed on Schedule I & II industries (Singh, 2002).

In case of all large and medium industries, exempt from the requirement of industrial licensing, information about the industrial undertaking ought to be filled before the commencement of production in the prescribed Industrial Entrepreneur's Memorandum (IEM)A – form along with a demand draft of Rs. 10,000. At the time of commencement of commercial production, moreover, the industrial undertaking needs to fill information in the IEM B form. The Schedule II category of industries generally belongs to polluting and hazardous group of industries and therefore, calls for prior approval of the central government. The industry concerned thus has to submit the application in the prescribed form i.e. Form FCIL to the Entrepreneurial Assistance Unit (EAU) of the Secretariat of Industrial Assistance (SIA) of Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry. Approvals, if forthcoming are normally conveyed within 4 – 6 weeks of submitting the application. The small scale industries, on the other hand, may get registered with the Directorate of Industries/ District Industries Centre of the state government concerned. Manufacture of items, reserved for the small scale sector can also be taken up by not small scale units, if they apply for and obtain an industrial license from the SIA/ FIPB in the DIPP. In such cases, it is mandatory for the non–small scale unit to undertake minimum export obligation of 50 per cent (Singh, 2002).

The above mentioned industrial policy provisions hold good for both the domestic and foreign companies. Once the approval has been given to a foreign investor, a multinational enterprise, an overseas corporate body or a Non–Resident Indian (NRI), these companies are treated at par with any other Indian company. The additional provisions, which apply only to entry of Foreign Direct Investment inmates from the provisions of Foreign Exchange. Management Act (FEMA), 2000. According to it, no person resident outside India shall without the approval/ knowledge of the RBI may establish in India a branch or a liaison office or a project office or any other peace of business. FDI in a particular industry may be made through (a) the automatic route under powers delegated to the RBI, or (b) the SIA route with the approval accorded by the FIPB.

The initial policy stimulus to foreign direct investment in India came in July 1991 when the new industrial policy provided *inter–alia*, automatic approval with projects with foreign equity participation upto 51 per cent in high priority areas. In recent years, the Government has

initiated the second generation reforms under which measures have been taken to further facilitate and broaden the base of foreign direct investment in India. The policy for FDI allows freedom of location, choice of technology, repatriation of capital and dividends. As a result of these measures, there has been a strong surge of international interest in the Indian economy. The rate at which foreign direct investment inflow has grown during the post–liberalization period is clear indication that India is fast emerging as an attractive destination for overseas investors.

In spite of the fact that India is a strategic location with access to a vast domestic and South Asian market, its share in world's total flow of direct investment to developing countries is a meager 1.5 per cent . This calls for further liberalization of norms for investment by present and prospective foreign entrepreneurs. Attracting foreign capital requires an investor–friendly environment. It underlines the need for efficient and adequate infrastructural facilities, availability of skilled and semi–skilled labour force, business–friendly public administration and moderate rate of taxation.

A disquieting trend has been noticed in recent years that a sizeable amount of FDI is used for acquiring Indian companies rather than creating new productive assets. This has involved only a change of ownership of the existing assets without adding to the productive capacity of the economy. This tendency needs to be discouraged. FDI becomes meaningful only when new capacities are created in the economy or the existing capacities are made more efficient and competitive.

Though economic reforms welcoming foreign capital were introduced in the 1990s, it does not seem so far to be really evident in our overall attitude. There is a lingering perception abroad that foreign investors are still looked at with some suspicion. The made in India level is not being conceived by the world as synonymous with quality. The biggest barrier for India is at the first, screening stage itself in the action cycle. Often India looses out at the screening stage itself. This is primarily because we do not get across effectively to the decision making board room levels of corporate entities where a final decision is taken. Our promotional effort is quire often a general nature and not corporate specific. India is a multi–cultural society and a large number of multinational companies do not understand the diversity and the multi–plural nature of the society and the different stake holders in this country. On the other hand, China is viewed a more business oriented, its decision–making is faster and has more FDI friendly policies.

The industrial approval system contributed to industrial diversification in a national context. By 1970s, India's industrial structure was more diversified then the industrial structures in other developing countries. The regulatory framework increased transformation and transaction costs and promoted protection of small business enterprises. The approval system did not reduce the technology gap. It did not contribute technological development. It also did not prevent concentration of economic power in the private sector. The system did not promote development of small scale industry, but rather acted as an entry barrier for new entrepreneurs. The new industrial policy (1991) resulted in removal of controls, regulations and speeding approval procedures for industrial development. It has made easier for big companies to expand several sectors have been opened up for private investment and income sectors special incentives are being offered to foreign investors. Moreover, foreign ownership is allowed as the general rules. The industrialization has been key factor in economic liberalization in India. The new policy introduced welcome changes in six major areas of industry, viz. (i) industrial licensing, (ii) foreign investment, (iii) foreign technology agreements, (iv) public sector, (v) MRTP Act, (vi) small scale industries. The approval of FDI has been extended upto 51 per cent foreign equity in high priority industries. Foreign equity proposals need not necessarily be

accompanied by foreign technology agreements. Foreign Investment Promotion Council (FIPC) has been constituted to prepare project reports in select thrust areas and thereby facilitate the flow of foreign investment in the country. Again, Foreign Investment Promotion Board (FIPB) has been revamped for making rules and regulations pertaining to foreign investment more transparent. It has been authorized to provide a single window clearance. To attract multinational companies in the energy sector, 100 per cent foreign equity has been allowed. Foreign Exchange Regulation ACT of 1973 has been amended and restrictions placed on foreign companies by FERA have been lifted. Restrictive provisions of various types which were applicable to companies with more than 40 per cent foreign equity were abolished and all companies incorporated in India were to be treated equally irrespective of the level of foreign holdings. New sectors such as mining, telecommunications, highways construction and management have been thrown open to private and foreign owned enterprises.

The requirement of licensing has been virtually done away with the exception of a limited list of industries. The new policy encourages flows of investment especially in high priority industries and foreign institutional investment. The provision has been made for automatic approval of technology agreements related to high priority industries within specified parameters. Import of capital goods, technology and foreign testing or modernization of indigenous technology has been facilitated. The new policy aimed at providing enhanced support to the small scale for improving its economic efficiency and continuous technological upgradation. This was expected to improve its performance in terms of growth of output, employment and exports. All standards, regulations and procedures were also to be reviewed and modified so that their operations do not harm the interests of the small enterprises. The SSIs have been provided adequate flow of credit than providing cheap credit to them. In order to provide access to the capital market and to encourage modernization and technological upgradation, it has been decided to allow equity participation by other industrial undertakings in SSIs, not exceeding 24 per cent of their total shareholdings.

Indian industry feels threatened by the likely impact of competition on industry as a whole and on individual units or sectors. The new policies regime has changed marketing tactics, services, marketing approach, structure, nature and orientation. The character of market is changing from seller's market to a buyer's market. The markets are now flooded with the latest and technologically superior products and quality services from all over the world. There are more producers and many close substitutes to existing products are now available. The strong foreign brands launched by MNCs pose threat to Indian brands. Even Indian brands are being brought by MNCs. The consumers have wider choice of products, services and suppliers. A variety of schemes of finance, concessions of various sorts and incentives too are being offered. Companies are no longer expecting to sell what they produce but they are supposed to satisfy the customer in terms of quality, price, post sales services etc. There is tough competition between organized sector and unorganized sector as well as national branded and local branded products. The unorganized sector suffers from poor marketing intelligence, market strategies and managerial inefficiency. It is expected that MNCs may help the SSI through greater demand for spare part components, semi–finished products etc. which the larger foreign firms will not find it economical to produce it on their own. The apprehension that the entry of MNCs will spell doom for the Indian industry has not come true. Rather, a large part of the FDI has been in the areas of crucial development such as infrastructure.

CHAPTER – III

INDUSTRIAL DEVELOPMENT AND SICKNESS IN SSI SECTOR IN INDIA

The small scale industries have worked as an engine of growth in both developed and developing countries. Despite the extraordinary synchronized global slump, small scale industries acted as a prime mover in slipping up industrial growth, enhancing poverty alleviation and bringing about sustainability. There has been an increasing realization of a need to introduce the concept of Small and Medium Enterprises (SMEs) in place of Small Scale Industries (SSIs). SMEs represent over 80 per cent of the industrial base of most of the developed countries and so most of these countries have a concept of SMEs rather than SSIs.

There is growing recognition world wide that SMEs have an important role to play in the present context given their greatest resource use efficiency, capacity for employment generation, technological innovation, promoting inter–sectoral linkages, raising exports and developing entrepreneurship skills. Their locational flexibility is an important advantage in reducing regional imbalances. The future of SMEs is a major policy concern given their strategic importance in any discussion of reshaping the industrial sector. In case of India, government support to the small scale industrial sector since independence has been a serious concern since in the competitive environment posed by economic liberalization and globalization has compelled government to shift its policy.

Enterprises are broadly classified into two categories: Manufacturing; and those engaged in providing / rendering of services.

Both categories of enterprises have been classified into micro, small , medium and large enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Table : 3.1 Classification of industries on the Basis of Investments

Classification	**Investment Ceiling for Plant, Machinery or Equipments*@**	
	Manufacturing Enterprises	**Service Enterprises**
Micro	Up to $ 62,500	Up to $ 25,000
Small	Between $ 60,000 & $ 1.25 mn	Between $ 25,000 & $ 0.5 mn
Medium	Between $ 1.25 mn & $ 2.50 mn	Between $ 0.5 mn & $ 1.25 mn
***** Fixed Costs are obviously higher		

Definitions before 2nd October 2006

Table : 3.2 Classification of industries on the Basis of Investments(After October 2006)

Classification	**Investment Ceiling for Plant& Machinery or Fixed Assets*@**	
	Manufacturing Enterprises	**Service Enterprises**
Micro	Up to $ 62,500	Up to $ 25,000
Small	Between $ 60,000 & $ 1.25 mn	
Medium	Not Defined	Not Defined
***** Excluding land and building		
@ $1=Rs. 40 (October 2007)		

The small scale sector, over the years has grown steadily and occupied an importance place in the economy. The contribution of the sector in terms of generation of employment, output and exports is quite significant. The number of registered units in SSI sector has increased from 0.42 million at the end of Mach 1974 to 3.37 million at the end of March 2001. The Small Scale Industry sector accounts for 95 per cent of the industrial units; 40 per cent of output of the manufacturing sector, 35 per cent of the total exports and provides employment to around 17 million persons. The sector covers a wide spectrum of industries categorized under small, tiny and ancillary segments. In fact, it encompasses the continuum of the artisans, handicrafts units at one end and modern production units; with significant investments, on the other, producing a wide range of over 7,500 products. The sector acts as a nursery for the development of entrepreneurship talent. The SSI sector has been receiving special attention from the policy makers in addressing its requirements, but in audit, marketing, technology, entrepreneurship development, fiscal or infrastructural support.

The industry sector in India is broadly segmented into three categories namely: (i) large scale industry (factory) sector, (ii) small scale factory sector; and (iii) village and small industries sector. The units in the large scale factory sector and small scale factory are classified on the basis of an upper limit on investment in plant and machinery. The village and small industries sector has been further divided into two broad categories namely, the modern small scale industries and traditional industries. The modern small scale industries cover SSI units and powerloom units. The traditional industries subsector comprises tiny and cottage industries segment, like handloom, khadi and village industries, handicrafts, sericulture, silk and coir. The SSI sector consists of different segments such as SSIs ancillary undertakings, tiny units, export oriented units, women enterprises and small scale services and business enterprises.

Table 3.3 Micro, Small And Medium Enterprises (Msme) Sector: Profile

	Old Definition	**New Definition**
Number of Micro and small enterprises	12.8 million	13 million*
Employment	31.0 million	41.0 million**
Production (at current prices)	$ 140 billion	N.A.
Exports $	33 billion	N.A.
Share in GDP	6%	8.9%*
Share in manufacturing output	39%	45%*
Share in exports	33%	40%*

‘* The statistics relating to micro and small enterprises are based on 3rd All-India Census conducted during 2001-02 when the old definition was in vogue. The statistics relating to new definition are based on unofficial sources. Final picture will emerge from the 4th All-India Census to be Conducted / completed during 2007-09.

Table : 3.4 Annual Flow of Credit 2006-07

Indicator	**MSEs (former SSIs)**	**MSME Sector**
Public Sector Banks	$ 5.4 billion	$ 9.5 billion

Other Banks (Private/foreign Banks, SIDBI,SFCs,etc.)	$ 2.4 billion	$ 3.5 billion
Emerging Sources (VC/PE, ECBs,Factoring,etc.)	–	$ 3.0 billion*
Total	**$ 7.8 billion**	**$ 12.0 billion***

'* Estimates based on certain broad assumption.
Exchange rate used for conversion.Rs.40=1 US $

Medium Enterprises: Profile

The medium enterprises has been defined for the first time under the Micro, Small and Medium Enterprises Development (MSMED) Act,2006, which has come into force from 2nd October, 2006.Hence, no firm statistics is available in respect of medium enterprises presently.The statistics relating to medium enterprises would be captured in the 4th All-India Census to be conducted / completed during 2007-09.

Informal sources, however, suggest the number of medium enterprises in India to be between 10-15 thousand. Further, it is estimated that they contribute about 2% to GDP, over 5% to the manufacturing output and around 10% to the national exports.

Brief History of Government Policies and Support Measures

The development of the government policy frame work and support measures can be broadly grouped into three periods which are as follows:

1948-1991:- During this period recognition was given to the micro and smell enterprises and considered them as an effective tool to expand and generate employment opportunities, facilitate effective mobilization of skills and resources of private sector and help to ensure equitable distribution of national income, in all the policy resolutions of the government. The Micro, Small and Medium Enterprises Development Organization earlier as small Industries Development Organization SIDO was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provide the supportive measures that were required to nurture MSEs, in the from of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial bank excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institute for entrepreneurial Service Institute for entrepreneurial and skill development. MSME- Development Institute earlier knows as Small Industries Service SISI were set up all over India to train youth in skill/ entrepreneurship and tool Rooms were established with German and Danish assistance for providing technical service essential to MSEs as also for skill-training. At the state level, District Industries Centers were set up all over the country.

1991-1999:- From August 1991 under the new policy for smell, Timer and Village Enterprises framework for government support was laid in the context of liberalization, which

sought to replace protection with competitiveness in order to inform more vitality and growth to MSES in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new tool Rooms as well as Sub-Contracting Exchange was established. The Small Industries Development and Modernization Fund were created to accelerate finance and technical service to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industries Infrastructure Development IID scheme was launched to set mini industrial estate for small industries.

1999 onwards:- From the year 1999 the ministry MSME earlier known as Ministry of small scale Industries and agro & Rural Industries (SSI & ARI) came into being to provide specific attention to the promotion and development of the sector. The new Policy Package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, and technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology up gradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs. 1 crore ($0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long awaited enactment for this sector finally becomes a reality with the passage of the Micro, Small Medium Enterprises Act. In March 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.

Institutional Arrangement: - The SIDBI as the principal financial institution for financing, promotion and development of the MSE sector. The Ministry of MSEME is also implementing the following major schemer to ensure letter flow of credit to, MSES. Apart from extending financial assistance to the sector, it coordinates the function of institute engaged in similar activities. SIDBI's major operational are in the areas of (i) refinance assistance (ii) direct lending and (iii) development and support services. Commercial bank are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing terms loans (in the form of composite loans). At the State level, State financial Corporation (SFCs) and twin-function State Industrial Development Corporation SIDCs are the main source of long-term finance for the MSE sector.

Recognizing the importance of easy and adequate availability of credit sustainable growth of the MSE, the Government has announced a policy package for Stepping up Credit to Small and Medium Enterprises (SMSs)', with the objective of doubling the flow of credit of this sector within a period of five years to ensure better flow of credit to MSEs, the Ministry of MSEME is also implementing the following major scheme:

Emerging Sources of finance:-Increased competition due to globalization, MSME have started to more from blank credit the various other specialized financial services and alternating sources. In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowing, factoring service etc. More advanced MSMEs have started realizing the importance of this alternative source of funding to raise resources and the need for adopting better

government norms to take advantage of these funding sources. Efforts are on to put in place Limited Liability partnership Act so as to provide a thrust to the MSMEs in their move towards corporatization. At the end of March 2007, the loan outstanding against the MSE sector from scheduled commercial banks is estimated at over Rs. 90,000 crore ($ 22.5 billion). The incremental credit from scheduled commercial banks to the MSME sector during 2006-2007 is estimated at around Rs 45000 crore (over 11). In addition the MSME sector is estimated to have received funds from emerging source like venture capital and private equity external commercial borrowing, factoring services etc, to the tune of Rs. 12000 crore ($ 3 billion).

Present Policy Framework And Focus Areas

Policy –Micro, Small and Medium Enterprises Development Act, 2006

The MSMED Act, 2006 focused to encourage the development of these enterprises and also enhance their competitiveness. It provides the first- ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and sees to integrate the three fires of these, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmers for this purpose. Progressive credit policies and practices. Preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The ministry of Micro, Small and Medium Enterprise has been holding detailed Consultation with stakeholders and has drown up a road mop the generate consensus on further trimming their list.

The Ministry of MSME has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) should pave the way for greater corporatization of the Small and Medium Enterprises- there by enhancing their access to equity and other funds from the market of theses products in keeping with the global standards. The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate condenses on further trimming this list.

Credit / finance:-

For the promotion and development of micro and small enterprise credit is some of the features of existing credit policy for the MSE are as follows:-

Priority sector Lending:-Give credit to the MSES comes under the priority sector lending policy of the back. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the priority Sector, of which 10% is earmarked for the MSE sector. Any shortfall in such lending by the foreign bands has to be deposited in the small Enterprise Development Fund (SEDF) to be set up by the Small industries Development Bank of India (SIDBI).

Credit Guarantee Scheme: -The government launched credit guarantee fund scheme for micro and small enterprise in August 2000 to ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/ financial institutions in lending with out collateral security. The scheme covers collateral free credit facility extended by eligible lending institution to new exiting micro and small enterprises for loans up to Rs. 50 lakh ($ 12,000) per borrowing unit. The guarantee cover is up to 7 per cent of the credit sanctioned 80% in respect of loans up to Rs. Lakh ($12,500), loans provided to MSEs owns/ operated by women and all loans in the North- East Region.

Performance & Credit Rating Scheme: In April, 2005 the performance and credit rating scheme manufacturing MSES was launched, with the objective of assisting the MSE s with obtaining performance-cum- credit sating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme (implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs. 40,000 ($1,000).

Competitive Technology: - In the present competitive would technology is of prime indolence. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the –art Tool Rooms and Training Center. These Tool Rooms provide invaluable service to the Indian industry by way of precision tooling and providing well trained craftsman in the area of tool and die making. The tool Room are highly proficient in mould and die making technology and promote precision and quality in the development and manufacture of sophisticated moulds, dies and tools. The tool Rooms are not only equipped with the best technology but are also abreast with the latest advancements like CAD/CAM,CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping, etc. The Tool Room & Training Centers also offer various training programmers to meet the wide spectrum of technical manpower required in the manufacture sector. The training programmers are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. The Tool Rooms have also developed special training programmers to meet the requirement at international level, which are attended by participants from all over the globe. The Ministry of MSME implements the following scheme and progammes for the up gradation of technology of the MSMEs:

ISO 9000/14001 Certification Fee Reimbursement Scheme: - The government introduced a scheme to enhance the competitive strength of the MSES, to incendiaries technological up gradation, quality improvement by the MSES. The scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000 ($2000), for acquiring Quality Management System (QMS) ISO 9000 certification and/ or Environment Management System (EMS)ISO 14001 certification by the MSEs.

Micro and small Enterprises Cluster Development Programme: - For the holistic development of clusters of MSES, the Micro and small enterprises cluster development programme (MSECDP) is implemented. The Programme envisages measures for capacity building, skill development, technology up gradation of the enterprises improved credit delivery, marketing support, setting up of common facility centers etc, based on diagnostic studies carried out in consultation with cluster units and their collectives and management of cluster of cluster-wide facilities by the cluster (in phases) all or most of the "Clusters of Micro & Small Enterprises" scattered throughout the country. It aims at a focused programme of upgrading skills and technology that exist in these clusters through various stages, like proper diagnostic studies; interaction with the existing enterprises (on the recommendations of the study);

exposing the entrepreneurs/workers to better products, process & practices; upgrading the existing skills available that finally lead to the creation of 'Common Facility Centers' (CFCs) that these enterprises could utilize.

These CFCs can be in the form of processing facilities, finishing or packaging centers, tool rooms, testing/certifying laboratories, training centers and so on. Till October 2007, the Ministry of MSME has undertaken the development of over 400 clusters of village, micro and small enterprises; while 8 other Ministries and agencies of the federal government have also undertaken similar interactions in about 800 more clusters. India has now acquired considerable expertise in "Cluster Development Programme" and UNIDO as well as many developing countries are eager to learn about the Indian success story.

Credit Linked Capital Subsidy Scheme (CLCSS):-The aim of the credit linked capital Subsidy scheme is to assist individual micro small enterprises to replace their existing machinery with more modern and efficient ones, with state assistance of 15% of the bank credit required to finance now purchases. The federal government in the Ministry of MSME has assisted hundreds of micro enterprises in India and over $ 50 million has already been committed to this scheme, with more in the pipeline.

Infrastructure Development:-The integrated infrastructural development (IID) scheme was launched in 1994, for setting up of industrial estates and to develop infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, road, banks, raw, materials, storage and marketing outlets, common service facilities and technological back up services etc, for MSMEs. The schemes covers rural as well as urban areas with a provision of 50 percent reservation for rural areas and 50 percent industrial plots are to be reserved for the micro enterprises. The scheme also provides for up gradation/strengthening of the infrastructural facilities in the existing industrial estates. The estimated cost (excluding cost of land) to setup an IID Centre is Rs. 5 crore ($ 1.25 million). Central Government provides 40 percent in case of general States and up to 80% for North East Region (including Sikkim), J&K, H.P. and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institution or the state funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Programme (MSECDP). All the features of the IID Scheme have been retained and will be covered as "New Clusters" under MSECDP.

National Manufacturing Competitiveness Programme:-The government has also launched the national Manufacturing competiveness programme (NMCP) to help the MSMEs improve their competitiveness. The Scheme under this Programme is aimed of addressing the technology, marketing and skill up gradation needs of the sector, mainly in the Public-Private Partnership mode. One of the components under this programme is the application of lean Manufacturing Technology for increasing competitiveness of firms by systematically identifying and eliminating waste throughout the entire business cycle. This world tackle the factors inhibiting growth such as, inefficient use of resources resulting in product quality accompanied by hidden high cost due to rejection and rework in the course of manufacturing, building up inventory at the various stages in the form of raw materials, work-in-process, finished components, finished products, etc. another component of the NMCP is the Design Intervention through Design Clinic model for SMEs with the main objective of bringing the SME sector and Design expertise onto a common platform and to provide expert advice and solutions on real time design problems, resulting in continuous improvement and value addition for existing products. Other interventions under the NMCP include assistance for attaining Quality Standards and Certification, improving use of ICT, enhancing familiarity with Intellectual Property Rights (IPRs) compulsions and benefits in the manufacturing sectors and so on.

Technology Mission:-With the objectives of promoting new and appropriate technologies for MSMEs, assessing present levels of technology and their forecasting, setting up technology information centers/ data banks and an IT portal for information dissemination, carrying out derailed technology audits, the Ministry is also in the process of establishing a technology mission. This would also encourage research and development, create incubator infrastructure facilities in various technical institutions, motive MSMEs to obtain BIS/ISO certification and organize awareness campaigns among the MSMEs for quality, standardization and customer satisfaction.

Skill Development:-To develop skills in different trades/ disciplines, the Ministry of MSME has taken up several initiatives. For skill development of the entrepreneurs and their employee, the MSME- Development Institutes, Regional Testing Centers, Field Stations and autonomous bodies like tool Rooms, product-cum-process Development Centers (PPDCs) and Central Footwear Training institutes (CFTIs) of the Ministry conduct long term, short term, Trade/field-specific and industry-specific tailor-made courses as well as vocational training programmes. The efforts help in skill development and in creation of self-employment opportunities. A good number of trainees have set up their own enterprises in creating employment opportunities. The Ministry is at present training more than 1, 10,000 persons per annum both for business and technical skill development, which is among the largest programme by any single Ministry in India. The ministry is also focusing on socially backward groups and on least developed areas under its'Outreach Programme'. The package for Promotion of Micro and Small Enterprises announced recently provides for training of 50,000 entrepreneurs through specialized courses run by MSME-Development Institutes for new as well as existing micro and small entrepreneurs, formulation of a new scheme to provide financial assistance to select management/business schools and technical institutes to conduct tailor-made courses for new as well as existing micro and small entrepreneurs and provide financial assistance to 5 select universities/ colleges to run 1200 entrepreneurial clubs.

Marketing and Procurement:-Various facilities are provided is enterpriser registered with national small industries corporation (NSIC) in order to assist them for marketing their products in competitive environment, under the government stores purchase programme. These facilities are issue of Tender sets free of cost; exemption from payment of Earnest Money Deposit; Waiver of Security Deposit up to the Monetary Limit for which the unit is registered; and Price preference up to 15% over the quotation of large-scale units.

In addition to these facilities/benefits, 358 items has also been reserved for exclusive purchase from the MSE sector. However, as these guidelines were/ are not of a mandatory nature, the same has failed to achieve the desired results. To assist the MSEs in marketing of their products, Section 12 of the new MSMED Act enjoins the formulation of a scheme of preferential procurement of goods/ service produced/ rendered by MSEs both of the Central and State/UT levels. Once formulated, the procurement scheme may be more effective in providing the much-needed marketing support that MSEs seek so desperately. Each Ministry/ Department, CPSU, etc., would have to specific mention of the compliance of the preference policy in its Annual Reports to be tabled in Parliament.

Export Promotion:-A high priority has given to exports from MSE sector. To help MSEs in exporting their products, the following facilities/ incentives are provided:

Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;

To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organized I various parts of the country in association with the Indian Institute of Packaging;

Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individual for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individual as member of a trade delegation going abroad.

The scheme also offers assistance for

Sector specific market study by MSE Associations/ Export Promotion Council / Federation of Indian Export Organization;

Initiating / contesting anti-dumping cases by MSE Associations; and Reimbursement of 75 percent of the one time registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

Strengthening of Database:-For any policy decision- making process, a reliable database is the key input. This is more so for the MSME sector in view of its large size and wide disparity among the enterprises within the sector. The Ministry has so far conducted three Census in the year 1971-72, 1992-93 and 2002-03 for strengthening / updating the database on MSE sector. However, the long gap between the Census has limited the reliability of the MSE database. To strengthen the data base for the MSME sector, Statistics and information will now be collected in respect of number of units, employment, rate of growth, share of GDP, value of Production, extent of Sickness/Closure, exports and all other relevant parameters of micro, small and medium enterprises, including Khadi and village industry, through annual sample surveys and quinquennial census. The quinquennial census and annual sample surveys of MSMEs will also collect data on women-owned and / or managed enterprises.

Inclusiveness:- In September 2006, the ministry of MSME launched a special programme, namely "Outreach Programme for skill Development in Less Developed areas. "Under this programme, the field offices of the Ministry organize short-term skill development programmes in the less developed areas. Such short-term courses are tailor-made for these areas so as to enable trainees to get employment or start self-employment ventures. These programmes are of short duration of 1-3 weeks and the activity selected for trainees are relevant to the local requirement. The target grow up consist wholly or partly of disadvantaged sections. Further, under the recently announced Promotional Package for MSEs, 20 % of skill Development Programmes have been reserved for weaker sections along with the provision of a stipend of Rs.500 per capita per month exclusively for SCs/STs, women and physically handicapped. In case of the regular EDP/MDP/ skill Development programmes, a nominal fee of Rs. 100 is charged. However, there is no fee for SCs/STs, women and physically handicapped candidates.

India's pioneering policies for the development of MSEs offers case studies for the developing world. Government has moved away, though not yet fully, from its role of direct interventions to that of a friend and facilitator. There is growing realization that protection in the form of reservation needs to be replaced with easy access to capital, technology and skill development to integrate the MSMEs more firmly with the domestic and global economy. And these are now the specific target areas of the Ministry of MSME.

Indian MSMEs: Areas Of Cooperation

Initially, India had benefited from the experience of several countries especially in the field of technology. However, the rich Indian experience in the last sixty years in the MSME sector

could also be of equal use for both developing as well as developed countries. Some of the areas that offer ample opportunities for cooperation in the MSME sector are:

- Consultancy services and training in Capacity Building of Entrepreneurs and Technical Manpower of SMEs;
- Policy & Institutional Framework for SME promotion, development and Enhancing Competitiveness;
- Entrepreneurship Development; and
- Business Development Services
- Establishment of Turnkey Projects for settings up Manufacturing MSMEs on commercial terms.
- Skill up gradation programmes in selected areas such as CNC Machining, Sheet-Metal Technologies, CAD & CAM designing, Wool Processing & Weaving, Leather Technology, Plastic Technology, Wood Working, etc.
- Conducting surveys and studies to identify the tooling and related skill requirements in specific areas or regions like / backward / indigenous.
- Providing turnkey assistance to setup Tool Room & training Centers.
- Providing consultancy to existing manufacturing SME in upgrading their production facilities, selection of machine tools, design consultancy for tools, moulds, dies, jigs & fixtures, etc.
- Providing specialized/ tailor-made training institutes in course design and curriculum development including trainers training programmes.
- Assistance in product design, tool design and manufacturing of intricate tooling.
- High precision tools, moulds, dies, jigs & fixture etc. as per design / specifications of local industry.
- Product development & rapid prototyping services.

Performance of SSI Sector

The growth of small scale industries sector is shown in table – 3.5. There significant growth in number of units, production and export value while employment has increased marginally over the period of 1999–2000 to 2005–06. Again, there has been a growth in number of units, in production, in export value sector during the post reform period. During 2005–06, 123.4 lakh units produced with Rs. 471244 crores and provided employment to 294.9 lakh persons.

Table : 3.5 Growth of SSI s in India

Year	Units (Lakh nos.)	Production (Rs. Crore)		Employment (Lakh nos.)	Production per employee (Rs. Thousand) at 1993–94 prices	SSI Exports	
		At 1993–94 prices	At current prices			Rs. Crore	US $ Million
1999–00	97.2	170379	233760	229.1	74	54200	12508
2000-01	101.1	184401	261297	238.7	77	69797	15278
2001-02	105.2	195613	282270	249.3	78	71244	14938
2002-03	109.5	210636	311993	260.2	81	86013	17773
2003-04	114	228730	357733	271.4	84	97644	21249
2004-05	118.6	251511	418263	282.6	89	–	–
2005-06 P	123.4*	275581*	471244**	294.9*	93	–	–

P: provisional

*: Estimates
** Production is based on April–September period of the year 2005–06.
Notes:–

1. Data have been revised since 1990–91 on the basis of the Third All-India Census of SSI units.
2. Data at constant prices is deflated on the basis of growth rates achieved in SSI Sector from 2001–02 to 1990–91.
3. Production at constant prices for the year 2004–05 is estimated on the growth rate if 8.89 percent achieved during the period April–December 2004.
4. Production at current prices is complied on the basis of average WPI 165.6 for the period (April–December 2004) of manufactured products.

Source: Ministry of Small Industries, Government of India.

Based on the data received from the sampled units, the quarterly index with the base year 2001-02 for the period April 2002 to march 2006 has been complied. The growth rates of SSI sector for the year 2002-03, 2003-04, 2004-05 and 2005-06 estimated on the basis of the new series of IIP vis-à-vis old series of IIP and with total manufacturing sector are given (Table 3.6).

Table : 3.6 Growth rates of SSI sector

Year	Growth rates of 1970 base IIP	Growth Rates of 2001-02 base IIP	Growth rates of manufacturing sector with base year 1993-94
2002-03	7.68%	8.68%	3
2003-04	8.59%	9.64%	7.4
2004-05	9.96%	10.88%	9.2
2005-06	10.40%	12.32%	9.1

Source : Ministry of Small Scale Industries.

It may be seen that the overall industrial growth rate of the small Scale Industries sector in terms of index of industrial Production (IIP) (Base: 2001-02=100) rose to 12.32% during the year 2005-06 as compared to 10.88% during the year 2004-05. The SSI sector has also consistently registered a higher growth rate as compared to the overall manufacturing sector.

Table 3.6 : The table depicts the Time Series Data of SSIs.

SI. NO.	Year	Total SSI units (Lakh numbers)	Fixed investment (Rs. crore)	Production (Rs. Crore)		Employment (Lakh Persons)	Export (Rs. Crore)
				Current Prices (19930-94)	Constant Prices		
1	1990-91	67.87	93555	78802	84728	158.34	9664
2	1991-92	70.63	100351	80615	87355	165.99	13883
		(4.07)	(7.26)	(2.3)	(3.10)	(4.83)	(43.66)
3	1992-93	73.51	109623	84413	92246	174.84	17784
		(4.07)	(9.24)	(4.71)	(5.60)	(5.33)	(28.1)
4	1993-94	76.49	115795	98796	98796	182.64	25307
		(4.07)	(5.63)	(17.04)	(7.10)	(4.46)	(42.3)
5	1994-95	79.60	123790	122154	108774	191.4	29068

		(4.07)	(6.9)	(23.64)	(10.1)	(4.79)	(14.86)
6	1995-96	82.84	125750	147712	121175	197.93	36470
		(4.07)	(1.58)	(20.92)	(11.4)	(3.42)	(25.46)
7	1996-97	86.21	130560	167805	134892	25.86	39248
		(4.07)	(3.82)	(13.60)	(11.32)	(4)	(7.62)
8	1997-98	89.71	133242	187217	146262.9	213.16	44442
		(4.07)	(2.05)	(11.57)	(8.43)	(3.55)	(13.23)
9	1998-99	93.36	135482	210454	157525.1	220.55	48979
		(4.07)	(1.68)	(12.41)	(7.7)	(3.46)	(10.21)
10	1999-00	97.15	139982	233760	170379.2	229.10	54200
		(4.07)	(3.32)	(11.07)	(8.16)	(3.88)	(10.66)
11	2000-01	101.1	146845	261297	184401.4	238.73	69797
		(4.07)	(4.9)	(11.78)	(8.23)	(4.21)	(28.78)
12	2001-02	105.21	154349	282270	195613	249.33	71244
		(4.07)	(5.11)	(8.03)	(6.06)	(4.44)	(2.07)
					At 2001-02 prices		
13	2002-03	109.49	162317	314850	306771	260.21	86013
		(4.07)	(5.16)	(11.54)	(8.68)	(4.36)	(20.73)
14	2003-04	113.95	170219	364547	336344	271.42	97644
		(4.07)	(4.87)	(15.78)	(9.64)	(4.31)	(13.52)
15	2004-05	118.59	178699	429796	372938	282.57	124417
		(4.07)	(4.98)	(17.90)	(10.88)	(4.11)	(27.42)
16	2005-06	123.42	188113	497842	418884	294.91	NA
		(4.07)	(5.27)	(15.83)	(12.32)	(4.37)	

Source : Ministry of Small Scale Industries.

The office of the SC (SSI) provides estimates in respect of various performance parameters relating to the growth of SSI sector. The table showing the time series data on various economic parameters is given above (table 3.6).

Table 3.7 : Growth Rates of Production

Year	Growth Rate of SSI sector (%)	Overall industrial sector (%)
2002-03	8.68	5.70
2003-04	9.64	6.90
2004-05	10.88	8.40
2005-06	12.32	8.10

Source :Ibid.

The small-scale sector has maintained a higher rate of growth vis-à-vis the overall industrial sector. The comparative growth rates of production for both the sectors during last five years are given below

Table 3.8: Contribution of SSI in the Gross Domestic Product (GDP)

Year	Contribution of SSI (%) at 1999-2000 prices in	
	Total industrial production	Gross Domestic Product (GDP)
1999-2000	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.80	5.82

Source : Ibid.

The contribution of the small scale industries in GDP has been almost same since 1999–2000 to 2003–04. The total SSI production has also been very similar from 1999–2000 onwards till 2003–2004.

The total employment from SSI sector (including SSSBEs) in the country as per the third All India Census of SSIs conducted with the reference year of 2001-02 was 249.33 lakh numbers. Units operated with fixed premises are treated as SSIs. As per the estimates compiled for the year 2005-06 the employment was 294.91 lakh persons in SSI sector. The share of SSIs in the total employment among units engaged in manufacturing and services is around 34.93%.

The MSMED Act came into effect on 2nd October 2006. Accordingly, the coverage and the investment ceiling have been widened and the sector is now called as micro, small and medium enterprises sector. There is an immediate requirement to update the database accordingly. A fresh census is going to be conducted during 2007-08 to serve the purpose.

Credit Guarantee Fund Scheme For Small Industries

Government introduced the Credit Guarantee Fund Scheme for small Industries in May 2000, with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 10 lakh without collateral / third party guarantees. The scheme is being operated by the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up jointly by the Government of India and SIDBI. The loan limit under the scheme has been enhanced to Rs. 25 lakh per borrower in terms of the comprehensive Policy Package on SSI announced by the Hon'ble Prime Minister on 30th August, 2000, when the Scheme was formally launched.

The scheme covers collateral-free credit facility (term loan and / or working capital including non fund based working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 25 lakh per borrowing unit. The guarantee limit of Rs. 18.75 lakh. However, the member lending institutions (MLIs) are allowed to extend additional credit facilities against collateral security and / or third party guarantee to the borrowers already covered under the scheme in those cases where the credit facility already covered under the scheme has reached the ceiling or Rs. 25 lakh. The MLIs availing guarantee from the Trust have to pay on time Guarantee Fee of 1.5 %(reduced from 2.5 % to 1.5 % w.e.f. 1 April 2006) and service free of .75 % per annum of the credit facility sanctioned by the lending institution to be borrower.

The credit Guarantee scheme was initially approved for one year with a corpus of Rs. 125 crore contributed by the Government of India and SIDBI in the ratio of 4:1. Subsequently, Government decided to continue the scheme beyond on year and the Finance Minister in the Budget 2006-07 has announced that the corpus fund will be raised to Rs. 2500 crore by 2010-11.

The CGTSI has been enhanced to Rs. 1336.55 crore with the contribution of Rs. 1069.25 crore from the Gol and Rs. 267.30 crore from SIDBI.

As on 31st December 2006, 59 eligible institutions comprising 28 public Sector Banks, 13 Private Sector Banks, 15 Regional Rural Banks (RRBs), National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFi) and Small Industries Development Bank of India (SIDBI) have become Member Lending Institutions (MLIs) of CGTSI for participating under the Credit Guarantee Scheme. Under the scheme 61,312 proposals amounting to Rs. 1543.63 croore have ben approved guarantee cover up to 31st December 2006.

Micro Finance Programme

Government has launched a revised Scheme under the Micro Finance Programme of SIDBI in 2003-04.government of India provides funds for Micro-Finance Programme to SIDBI under a 'Portfolio Risk Fund' (PRF), which is used for security deposit requirement of the loan amount from the MFIs / NGOs. At present, SIDBI takes fixed deposit equal to 10 % of the loan amount. Under the PRF, the share of MFIs/ NGO is 2.5 % of the loan amount (i.e. 25% of security deposit) and balance 7.5% (i.e. 75% of security deposit) is adjusted from the funds provided by the order to harmonies divergences in the concept as well as content of cluster development programmes, an Empowered Group of Ministers (EGom) has been constituted very recently under the Chairmanship of the External Affairs Minister. Minister of SSI has been nominated for servicing of the EGom.

SSI Sector in India manufacturing: Indicators from third SSI Census

By far the most comprehensive coverage of SSI sector is in the SSI census carried out by the MOSSI. So far the there have been three censuses, conducted during 1993-74, 1987-88 and 2001-02, the data from two earlier censuses are not generally comparable in sector, Moreover., the detailed data is not available for first two censuses. Therefore in this section and also in rest of the analysis in this report, we use unit record data from third SSI census. Moreover, as the issue of reservation is pertinent for registered segment of SSI. We report different characteristics for SSIs that are for registered.

The term registered here refers to being registered under the factories Act, as reported by each unit in the census.

Table 3.9 has different characteristics of the registered segment of the SSI sector as tabulated from the 3rd SSI census data. A little over nine lakh units out of over 11 million SSI unit are registered and a large proportion are in manufacturing sector total employment in the registered segment of SSI is more than 5.1 million again most of it is in the manufacturing sector.

Table 3.9 : Characteristics of SSI units, All India (2001-02)

Characteristics of registered SSI's	SSI units in Registered Sector	SSI units in Registered manufacturing sector
Number of SSI units ('000)	901	870
Employment for SSI units (in '000)	5151	5020
Gross-output for SSI units in Rupee billion	1951	1907
Exports for SSI units in Rupees billion	119	117

fixed Assets for SSI units in Rupees billion	823	796
Value of Plant & Machinery Physically installed for SSI in Rupee billion	271	263
Employment per unit	5.71	5.8
Output per employee	0.38	0.38
Output per unit Fixed Asset	2.37	2.4
Fixed Asset per unit Labour	0.16	0.16
Export as % of Output	6.1	6.13
Value of Plant & Machinery per unit Labour (in million)	0.05	0.05
Output per unit value of plant & Machinery	7.21	7.26
Source:- Estimates from 3rd All India Census of SSI's, 2001-02		

This table looks at SSI unit in terms of industry of industry divisions. The Industry divisions have been taken from NIC 1998. There are 99 two-digit descriptions ranging from agriculture, forestry and manufactures to construction, retail trade, transportation and social work. The SSIs are engaged in production of over 6000 items as per 3rd SSI census. Dispersion of these can be seen through the distribution of units across two digit NIC groups.

The below table shows the spread of SSIs according to the type of items they manufacture. The maximum number of SSIs—close to 19 per cent—in our data set belongs to the food product and beverage manufacturing industry. The next highest share- over 14.6 percent consists of SSIs making fabricated metal products, followed by other non metallic mineral products. Small textile units have a share of 8.7 percent. Chemicals and chemical products, machinery and equipment and other fabricated equipment account for around seven percent. In keeping with their share in Numbers, food product and beverages SSIs also matched their share in total employment.

Table 3.10 : Number of registered SSI unit across industry divisions (NIC-1998), All India (2001-02)

NIC 98	Industry Names	Percentage Distribution of SSI units (%)	Actual No. of SSI units (in number)
15	Food products & beverages	18.21	164107
16	Tobacco Products	0.28	2510
17	Textiles	6.63	59777
18	Apparel	4.78	43042
19	Leather & Products	3.65	32921
20	Wood & Products	5.73	51604

21	Paper & Products	1.2	10795
22	Recoded Media	4.1	36962
23	Energy/Fuel	0.39	3473
24	Chemicals & Products	4.45	40072
25	Rubber & Plastic	4.07	36656
26	Non-metallic Min. Products	6.94	62,561
27	Basic Metals	2.57	23,135
28	Fabricated Metal	14.69	132,409
29	Machinery & Equip N.E.C.	4.74	42,701
30	Office & Computing Machinery	0.11	953
31	Electrical Mach. & App. N.E.C.	2.3	20,708
32	Radio, TV, Comm. & App.	0.4	3,635
33	Instruments	0.43	3,853
34	Motor Vehicles & Trailers	0.76	6,847
35	Other transport Equip.	0.49	4,453
36	Furniture; Manufacturing N.E.C.	9.63	86774
37	Recycling	0.06	526
40	Electricity, Gas, Steam and Hot water supply	0.04	330
41	Collection, Purification and Distribution of water	0.01	106
50	Construction	0.8	7249
52	Sale, Maintenance and Repair of Motor vehicles and motorcycles; Retail sale of Automotive Fuel	1.43	12877
63	Wholesale Trade and Commission Trade, Expert of Motor Vehicles and Motorcycles	0.14	1244

64	Retail Trade, Expert of Motor vehicles and Motorcycles; Repair of Personal and Household Goods	0.06	542
71	Hotels and Restaurants	0.02	177
72	Land Transport; Transport Via Pipelines	0.48	4,324
74	Water Transport	0.35	3,188
85	Air Transport	0.01	118
92	Supporting and Auxiliary Transport Activities; Activities of Travel Agencies	0.01	95
93	Post and Telecommunications	0.04	389
Missing		0.02	178
Total		100	901,291

Source: - Estimates from 3rd All India Census of SSI's, 2001-02

These SSIs, with the highest share in numbers employed as much as 20 percent of the total number of people (table 3.11). the big departure is by the tobacco products SSIs—despite their small 2.2 percent share in the total number, they had a disproportionately large share of the employment at 13.2 percent this can probably be explained by the fact that these unit are country cigarette or bidi making units and since this is a hand – rolled product, a large number of people are needed to make products of seemingly much less value.

Table 3.11 : Total Employment registered SSI units across Industry Divisions (NIC 1998), All India (2001-02)

NIC 98	Industry Names	Percentage Distribution of Employment of SSI units (%)	Actual Employment of SSI units (in '000)
15	Food products & beverages	15.08	777
16	Tobacco Products	0.77	40
17	Textiles	8.31	428
18	Apparel	4.87	251
19	Leather & Products	2.60	134
20	Wood & Products	3.76	193
21	Paper & Products	1.75	90
22	Recoded Media	3.20	165
23	Energy/Fuel	0.49	25

24	Chemicals & Products	7.40	381
25	Rubber & Plastic	5.13	264
26	Non-metallic Min. Products	10.82	557
27	Basic Metals	4.17	215
28	Fabricated Metal	12.09	622
29	Machinery & Equip N.E.C.	4.90	252
30	Office & Computing Machinery	0.17	9
31	Electrical Mach. & App. N.E.C.	2.54	131
32	Radio, TV, Comm. & App.	0.61	31
33	Instruments	0.56	29
34	Motor Vehicles & Trailers	1.45	75
35	Other transport Equip.	0.76	39
36	Furniture; Manufacturing N.E.C.	5.97	307
37	Recycling	0.08	4
40	Electricity, Gas, Steam and Hot water supply	0.06	3
41	Collection, Purification and Distribution of water	0.01	1
50	Construction	0.58	30
52	Sale, Maintenance and Repair of Motor vehicles and motorcycles; Retail sale of Automotive Fuel	0.77	39
63	Wholesale Trade and Commission Trade, Expert of Motor Vehicles and Motorcycles	0.22	11
64	Retail Trade, Expert of Motor vehicles and Motorcycles; Repair of Personal and Household Goods	0.04	2
71	Hotels and Restaurants	0.03	1
72	Land Transport; Transport Via Pipelines	0.46	24
74	Water Transport	0.30	16
85	Air Transport	0.01	0
92	Supporting and Auxiliary Transport Activities; Activities of Travel Agencies	0.01	0

93	Post and Telecommunications	0.04	2
Missing		0.03	1.3
Total		100.00	5,151
Source:- Estimates from 3rd All India Census of SSI's, 2001-02			

Looking at the output across industry divisions we find that food and beverages SSIs again rule the roost. The share in total output of food etc is over 21 percent as evident from table 3.12. This is followed by chemical and chemical products at just over 10 percent. Other important industry divisions in terms of contribution to output are basic metals, fabricated metal, Rubber & plastic, textiles and machinery& Equip. N.E.C.

Table 3.12 : Gross Output of Registered SSI across Industry Divisions (NIC-1998), All India (2001-02)

NIC 98	Industry Names	Percentage Distribution of Gross Output of SSI units (%)	Actual Value of Gross Output of SSI units (in Rs. Lakh)
15	Food products & beverages	21.19	4,134,346
16	Tobacco Products	1.14	221,843
17	Textiles	6.83	1,331,772
18	Apparel	4.02	783,613
19	Leather & Products	2.44	476,574
20	Wood & Products	1.59	310,819
21	Paper & Products	1.93	377,491
22	Recoded Media	2.03	395,072
23	Energy/Fuel	0.75	147,235
24	Chemicals & Products	10.01	1,952,586
25	Rubber & Plastic	6.98	1,361,246
26	Non-metallic Min. Products	4.17	814,203
27	Basic Metals	9.60	1,871,969
28	Fabricated Metal	8.38	1,634,580
29	Machinery & Equip N.E.C.	5.50	1,072,523
30	Office & Computing Machinery	0.46	89,875
31	Electrical Mach. & App. N.E.C.	3.58	697,668
32	Radio, TV, Comm. & App.	0.95	185,004
33	Instruments	0.63	123,395
34	Motor Vehicles & Trailers	1.67	326,393

35	Other transport Equip.	1.1	214,040
36	Furniture; Manufacturing N.E.C.	2.63	513,169
37	Recycling	0.18	34,746
40	Electricity, Gas, Steam and Hot water supply	0.18	34,496
41	Collection, Purification and Distribution of water	0.01	1,235
50	Construction	0.48	94,295
52	Sale, Maintenance and Repair of Motor vehicles and motorcycles; Retail sale of Automotive Fuel	0.35	67,679
63	Wholesale Trade and Commission Trade, Expert of Motor Vehicles and Motorcycles	0.26	51,136
64	Retail Trade, Expert of Motor vehicles and Motorcycles; Repair of Personal and Household Goods	0.03	4,980
71	Hotels and Restaurants	0.02	4,571
72	Land Transport; Transport Via Pipelines	0.61	119,915
74	Water Transport	0.18	35,690
85	Air Transport	0.00	442
92	Supporting and Auxiliary Transport Activities; Activities of Travel Agencies	0.01	1,773
93	Post and Telecommunications	0.06	12,318
Missing		0.05	10,624.70
Total		100.00	19,509,316
Source:- Estimates from 3rd All India Census of SSI's, 2001-02			

The distribution of unit of units, employment and output are predominantly in manufacturing SSI units the share exports show some surprises as apparent from table 2.6 more than 50 percent export from the registered SSIs is from food and beverages textiles and wearing apparels. Fourth position in term of exports is by fabricated metal products. The chemical products contribute about 6% to total exports from SSI.

Table 3.13 : Exports of Registered SSI units across Industry Divisions (NIC-1998), All India (2001-02)

NIC 98	Industry Names	Percentage Distribution of Exports of SSI units (%)	Actual Value of Exports of SSI units (in Rs. Lakh)
15	Food products & beverages	17.26	205,446
16	Tobacco Products	0.94	11,207
17	Textiles	14.66	174,552
18	Apparel	21.90	260,690
19	Leather & Products	9.68	115,230
20	Wood & Products	0.53	6,294
21	Paper & Products	0.40	4,731
22	Recoded Media	0.23	2,754
23	Energy/Fuel	0.08	905
24	Chemicals & Products	5.78	68,792
25	Rubber & Plastic	2.06	24,503
26	Non-metallic Min. Products	1.93	23,503
27	Basic Metals	3.11	37,020
28	Fabricated Metal	7.63	90,796
29	Machinery & Equip N.E.C.	1.64	19,468
30	Office & Computing Machinery	0.07	833
31	Electrical Mach. & App. N.E.C.	1.83	21,804
32	Radio, TV, Comm. & App.	0.53	6,250
33	Instruments	0.99	11,739
34	Motor Vehicles & Trailers	1.02	12,143
35	Other transport Equip.	0.53	6,275
36	Furniture; Manufacturing N.E.C.	5.44	64,803
37	Recycling	0.03	307
40	Electricity, Gas, Steam and Hot water supply	0.01	60
41	Collection, Purification and Distribution of water	0	
50	Construction	0	

52	Sale, Maintenance and Repair of Motor vehicles and motorcycles; Retail sale of Automotive Fuel	0	
63	Wholesale Trade and Commission Trade, Expert of Motor Vehicles and Motorcycles	0.5	5,977
64	Retail Trade, Expert of Motor vehicles and Motorcycles; Repair of Personal and Household Goods	0.00	
71	Hotels and Restaurants	0.00	
72	Land Transport; Transport Via Pipelines	1.12	13,355
74	Water Transport	0.06	763
85	Air Transport	0.00	
92	Supporting and Auxiliary Transport Activities; Activities of Travel Agencies	0.01	80
93	Post and Telecommunications	0.00	
Missing		0.05	553.40
Total		100.00	1,190,352
Source:- Estimates from 3rd All India Census of SSI's, 2001-02			

The above table shows that apparels hold the top position in the actual value of exports followed by food products & beverages and textiles and leather & leather products. The percentage distribution of exports of SSI units also apparel rates fish followed by food products beverages and textiles.

Geographical Distribution of SSIs

This favored treatment of SSI's by means of reservation of products and other fiscal incentive was expected to contribute to spread of industrial activity across the country the distribution of SSI units across 35 stases and union territories was tabulated, which is reported I table 3.14. Though the small-scale units are dispersed all over India but there are states that have a greater concentration of such units. Setting up SSIs in states that have higher levels of industrialization would be more beneficial for such units. Our data bears this out.

Table 3.14 illustrates that while 11 percent of the small scale units are located in Uttar Pradesh, over one third of registered SSI units are located in four southern states. Six states, namely, Assam, Bihar, Chhattisgarh, Jharkhand, Orissa and West Bengal account for just about 13 percent of total SSI units. Further over a quarter of units are located in three states in the western region. This distribution bears out the fact that there is serious regional imbalance as far as the distribution of SSIs in concerned.

Andhra Pradesh's percentage share in total SSI employment has grown from 10 percent in 1998-99 to 11.6 percent in 2001-02. By contrast, Maharashtra, the state which generated the most jobs in this sector, is slowing down from over 16 percent to 15 percent n these four years. The surprise is Tamil Nadu, which has actually increased its share from 13 percent to 14 percent in the same period. However, across the country, SSI employment shows a rapidly declining trend.

Table 3.14 Number of Registered SSI units across states, All India (2001-02)

State	Percentage Distribution of SSI units (%)	Actual No. of SSI units (in number)
Uttar Pradesh	11.01	99,218
Gujarat	9.89	89,103
Tamilnadu	9.56	86,160
Kerala	9.53	85,857
Karnataka	8.89	80,167
Maharashtra	8.6	77,541
Madhya Pradesh	6.0	54,122
Andhra Pradesh	5.46	49,179
Punjab	5.09	45,853
Bihar	3.97	35,792
West Bengal	3.95	35,613
Rajasthan	3.53	31,781
Haryana	3.03	27,317
Chhattisgarh	1.84	16,550
Jharkhand	1.46	13,122
Assam	1.23	11,098
Jammu & Kashmir	1.21	10,878
Himachal Pradesh	1.08	9,756
Orissa	1.08	9,751
Uttaranchal	1.08	9,746
Delhi	0.81	7,280
Manipur	0.38	3,414
Goa	0.23	2,028
Mizoram	0.22	2,020
Pondicherry	0.16	1,427
Meghalaya	0.15	1,382
Chandigarh	0.14	1,218
Daman & diu	0.11	1,025
Tripura	0.08	729

D & N Haveli	0.08	691
Nagaland	0.06	550
A & N Islands	0.06	501
Arunachal Pradesh	0.03	230
Sikkim	0.02	139
Lakshadweep	0.01	54
Total	100	901,291

Source: Estimates from 3rd All India Census of SSI's, 2001-02

The number of units when seen in conjunction with the distribution of employment, which has been the main argument going in favor of SSI protection and promotion, it is Tamil Nadu which has highest share in employment. However Maharashtra with a little less employment share has significant higher share of the total SSI output.

Table 3.15 : Employment in Registered SSI units Across states, All India (2001-02)

State	Percentage Distribution of Employment of SSI units (%)	Actual Employment of SSI units (in '000)
Tamilnadu	12.94	666
Maharashtra	11.81	608
Gujarat	9.3	479
Uttar Pradesh	8.62	444
Karnataka	7.9	407
Kerala	7.89	406
Andhra Pradesh	6.66	343
Punjab	5.87	302
West Bengal	4.61	237
Haryana	4.22	217
Rajasthan	3.42	176
Madhya Pradesh	3.42	176
Bihar	2.09	108
Delhi	1.66	86

Table 3.16 : Gross Output of Registered SSI units Across States, All India (2001-02)

State	Percentage Distribution of Gross Output of SSI units (%)	Actual Value of Gross Output of SSI units (in Rs. Lakh)

Maharashtra	17.41	3,397,480
Punjab	9.71	1,893,504
Uttar Pradesh	8.23	1,605,108
Haryana	7.58	1,479,751
Tamilnadu	7.14	1,393,559
Andhra Pradesh	6.38	1,243,767
Rajasthan	5.6	1,092,550
Gujarat	4.75	926,959
Karnataka	4.3	838,407
West Bengal	4.28	834,512
Madhya Pradesh	3.63	709,029
Delhi	3.59	699,732
Kerala	2.98	580,768
Daman & diu	2.94	573,096
D & N Haveli	2.15	419,901
Orissa	1.63	318,152
Pondicherry	1.11	216,774
Jammu & Kashmir	1.05	204,486
Himachal Pradesh	1.01	196,987
Goa	0.91	176,789
Chhattisgarh	0.89	173,592
Uttaranchal	0.69	133,981
Assam	0.57	110,290
Bihar	0.45	87,479
Chandigarh	0.38	74,547
Jharkhand	0.35	68,860
Tripura	0.08	16,345
Nagaland	0.05	9,756
Meghalaya	0.05	9,569
Manipur	0.04	7,228
Mizoram	0.03	5,438
A & N Islands	0.02	4,798
Arunachal Pradesh	0.02	3,201
Sikkim	0.01	2,719
Lakshadweep	0	201
Total	100	19,509,316

Source:- Estimates from 3rd All India Census of SSI;s. 2001-02

Table 3.17 : Exports of Registered SSI units across states, All India (2001-02)

State	Percentage Distribution of Exports of SSI units (%)	Actual Value of Exports of SSI units (in Rs. Lakh)
Tamilnadu	15.2	180,963
Haryana	11.99	142,737
Uttar Pradesh	11.9	141,691
Maharashtra	10.86	129,239
Delhi	10.5	124,963
Punjab	9.23	109,854
Kerala	6.17	73,492
Rajasthan	4.82	57,384
West Bengal	4.71	56,102
Karnataka	4.2	20,028
Andhra Pradesh	3.89	46,259
Orissa	2.41	28,690
Madhya Pradesh	1.63	19,357
Daman & diu	0.79	9,352
Pondicherry	0.49	5,855
D & N Haveli	0.27	3,221
Jharkhand	0.18	2,163
Gujarat	0.16	1,931
Goa	0.14	1,618
Uttaranchal	0.13	1,541
Chandigarh	0.12	1,458
Himachal Pradesh	0.11	1,345
Assam	0.04	508
Bihar	0.02	198
Chhattisgarh	0.01	127
Jammu & Kashmir	0.01	115
Nagaland	0.01	111
Sikkim	0	27
Manipur	0	13
Tripura	0	6

Mizoram	0	4
Arunachal Pradesh	0	0
Meghalaya	0	0
Lakshadweep	0	0
A & N Islands	0	0
Total	100	1,190,352

Source:- Estimates from 3rd All India Census of SSI;s. 2001-02

Distribution of Small units by type of ownership

Table 3.18 shows that the majority of SSI units are partnership followed by those which are wholly owned by individuals. Close to 89 percent of units in SSI sector fall in the privately owned category though type of organization might differ. About 29 percent are individual proprietary and 41 percent are in partnership. The data are from ASI where the ownership Characteristics of the units are reported. Since the ASI data are from a sample of small units these figures should only taken as indicative.

Table 3.18 : Share in Number of SSIs by Type of Ownership in 2001-02 (in percent)

Type of Ownership	**Non-SSI**	**SSI**
Individual proprietorship	0.73	28.77
Joint family (HUF)	0.15	2.78
Partnership	2.58	40.92
Public limited company	50.97	4.42
Private limited company	41.37	20.48
Govt. Departmental enterprise (incl. Khadi and handlooms)	0.43	0.44
Public corporation by special act of parliament	1.66	0.31
Co-operative Society	1.91	1.26
Others (incl. Trusts, Wakf board, etc)	0.19	0.63
Missing	0	0
Total	100	100

Source:- Estimates from Annual Survey of Industries data

Table 3.19: Share in Employment in SSIs by type of ownership in 2001-02(in percent)

Type of Ownership	**Non-SSI**	**SSI**
individual proprietorship	0.26	17.96
joint family (HUF)	0.17	2.15
Partnership	1.34	38.92
Public limited company	64.23	12.63
private limited company	21.55	23.82

govt. departmental Enterprise (Incl. Khadi and Handlooms)	0.89	0.72
Public corporation by special act of parliament	6.73	0.97
co-operative Society	4.56	213
Others (incl. Trusts, Wakf board, etc)	0.26	0.71
Missing	0	0
Total	100	100

Source:- Estimates from Annual Survey of Industries data

In case of employment the distribution is somewhat different. Though the private units continue to have the largest share in employment. It is private Limited SSIs that have higher share than their share in the number of units. Once again, the source of data used for this analysis is ASI. Therefore, the distribution reported here is for registered units only.

Table 3.20 : Statewise Number of SSI Units, Employment and Fixed Investment

State	No. of Units (000)	% Share	Employment (000)	% Share	Investment (Rs.000)	% Share
Andhra Pradesh	136.94	4.39	877.51	5.53	16981	2.41
Arunachal Pradesh	1.60	0.15	20.66	0.13	7406	1.05
Assam	30.80	0.99	151.91	0.96	15245	2.16
Bihar	291.17	9.34	473.62	2.98	8105	1.15
Delhi	130.22	4.18	1171.96	7.38	26040	3.36
Goa	5.95	0.19	40.80	0.26	24602	0.36
Gujarat	179.54	5.76	987.44	6.22	63196	8.96
Haryana	90.55	2.90	510.98	3.21	15326	2.17
Himachal Pradesh	28.05	0.90	119.62	0.75	6134	0.87
Jammu & Kashmir	27.19	0.87	118.95	0.75	18215	2.58
Karnataka	227.79	7.30	1173.09	7.39	46921	6.65
Kerala	177.65	5.70	819.69	5.16	27257	3.87
Madhya Pradesh	302.77	9.71	715.96	4.51	14816	2.10
Maharashtra	244.17	7.83	1631.07	10.28	234894	33.31
Manipur	6.22	0.20	31.05	0.20	381	0.05
Meghalaya	3.39	0.11	19.45	0.12	287	0.04
Mizoram	4.40	0.14	26.10	0.16	669	0.09
Nagaland	1.76	0.06	4.31	0.03	95	0.01
Orissa	25.25	0.81	223.47	1.41	NA	NA
Punjab	199.04	6.38	879.79	5.54	37500	5.32
Pondicherry	4.46	0.14	36.64	0.23	2299	0.33

Rajasthan	103.35	3.31	437.36	2.76	26916	3.82
Sikkim	0.32	0.01	3.18	0.02	245	0.03
Tamil Nadu	353.55	11.34	3181.91	20.05	84850	12.03
Tripura	2.01	0.06	9.11	0.06	145	0.02
U.P.	390.17	12.51	1543.89	9.73	38583	5.47
West Bengal	140.54	4.51	584.65	3.68	NA	NA
Total	318.58	100.0	15872.82	100.0	705200	100.0

Source:- Estimates from 3rd All India Census of SSI;s. 2001-02

Most of the units are concentrated in Uttar Pradesh (12.51 per cent), followed by Tamil Nadu (11.34 per cent), Madhya Pradesh (9.71 per cent), Bihar (9.34 per cent), Maharashtra (7.85 per cent) and Karnataka (7.30 per cent), while industrial units of Tamil Nadu (20.05 per cent), Maharashtra (10.28 per cent), Uttar Pradesh (9.73 per cent) and Jammu & Kashmir (7.39 per cent) provide employment (table – 3.3).

In the state of Uttar Pradesh, SSIs were reported to be 3.90 lakh units, which provide employment to 15.44 lakh persons and produced worth of Rs. 103095 million during 1999–2000. Again, during the period of 1987–88 to 1999–2000, industrial units registered the growth of 632.27 per cent, employment in these units grew by 342.49 per cent and investment by 293.30 per cent. During 1990s, handicraft industries in Uttar Pradesh has grown by 7.3 per cent (table – 3.21 and 3.22).

Table – 3.21 : Regional Distribution of Clusters in India

State	Cluster
Maharashtra	25
Gujarat	20
Punjab	15
Rajasthan	14
Uttar Pradesh	13
Haryana	12
West Bengal	9
Tamil Nadu	8
Himachal Pradesh	5
TOTAL	350

Table – 3.22 : Successful Industrial Clusters in India

Cluster	Statistics
Panipat	75 per cent of total blankets production in India
Tripur	80 per cent of India's Cotton hosiery exports
Ludhiana	95 per cent of India's woolen knitwear 85 per cent of India's sewing Machines 60 per cent of bicycles and bicycle parts
Agra	800 registered and 6000 unorganized small scale units making shoes Daily production value of 1.3 million Export worth $ 60 million per year

Source : UNIDO Cluster Development Programme

SSIs are mainly concentrated in Agra, Kanpur, Lucknow, Varanasi and Bareilly region.

The successful industrial clusters of India are shown in table – 3.22. Panipat (Haryana), Tripur (Tamil Nadu), Ludhiana (Punjab), Agra (Uttar Pradesh) are some of the successful clusters of SSIs in India.

About 75 per cent of total blanket's production in India is being contributed by Panipat cluster while Tripur clusters account for 80 per cent of India's cotton hosiery exports, Ludhiana cluster account for 95 per cent of India's woolen knitwear, 85 per cent of India's sewing machines, 60 per cent of bicycles and bicycle parts.

Again, Agra cluster of Uttar Pradesh has shown tremendous performance since 800 registered and 6000 unregistered small scale units are making shoes. Daily production value of reparsed to be $ 1.3 million with the export worth of $ 60 million per year. It is to be noted that Agra shoe market is largest shoe market of Asia. The distribution of clusters of industries has been concentrated in Maharashtra (25), Gujarat (20), Punjab (15), Rajasthan (14), Uttar Pradesh (13) and Haryana.

Table – 3.23 : Distribution of Output and Employment in Tiny Sector by Employment Slabs

Particular	1–4	5–9	10–19	20–49	50–99	100+	Total
No.of Units	375755	135407	42871	19830	4199	1773	579855
Percentage	64.80	23.35	7.39	3.42	0.72	0.31	100.0
Employment	822475	878789	561581	584665	274976	401853	3524339
Percentage	23.34	24.93	15.93	16.58	7.80	14.40	100.0
Production (Rs. Million)	49466	98464	81756	87546	36140	31299	384671
Percentage	12.86	25.60	21.25	22.76	9.40	8.14	100.0

Source : Estimates from 3rd All India Census of SSI;s. 2001-02

Distribution of tiny sector industries is shown in table – 3.7. About 5.80 lakh units provide employment to 35.24 lakh persons and produced worth Rs. 3846.71 million while about 48 per cent units provide to employment to 10 persons only.

Table – 3.24 : Performance of KVIs in India

PRODUCTION			
			(Rs. In Crores)
Year	**Khadi**	**Village Industries**	**Total**
2000-2001	431.57	6491.69	6923.26
2001-2002	411	7140.52	7551.52
2002-2003	443.07	8126.3	8569.37
2003-2004	453.5	9228.27	9681.77
2004-2005	461.54	10458.89	10920.43
SALES			
			(Rs. In Crores)
Year	**Khadi**	**Village Industries**	**Total**
2000-2001	570.55	7384.55	7955.1
2001-2002	518.25	8383.49	8901.74
2002-2003	577.63	9615.71	10193.34

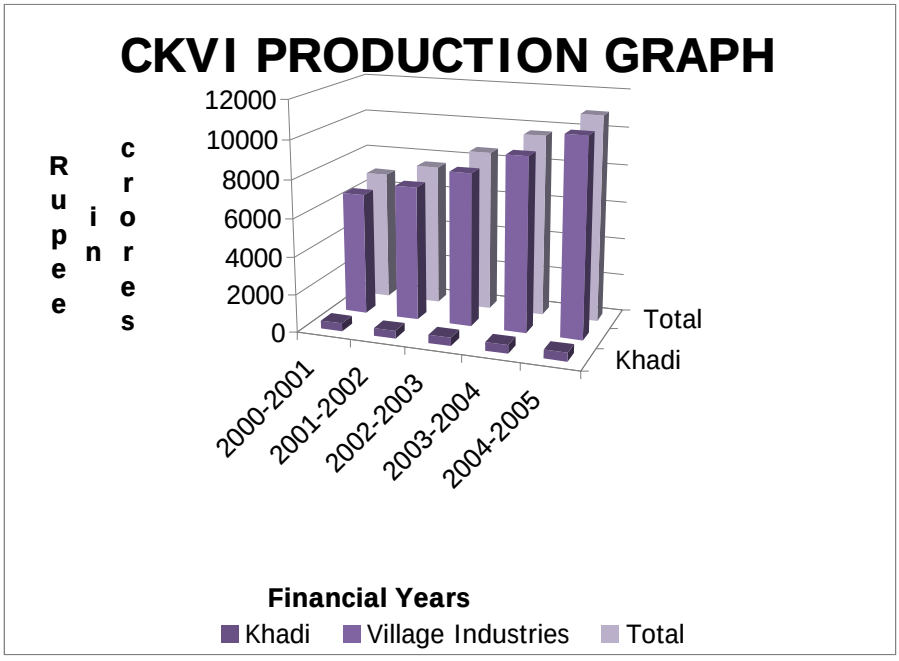
2003-2004	587.04	10988.17	11575.21
2004-2005	617.84	12487.35	13105.19

EMPLOYMENT			
			(Rs. In Lakh Persons)
Year	**Khadi**	**Village Industries**	**Total**
2000-2001	9.56	50.51	60.07
2001-2002	8.48	54.16	62.64
2002-2003	8.58	57.87	66.45
2003-2004	8.61	62.58	71.19
2004-2005	8.64	68.14	76.78

Source:- KVIC 2009

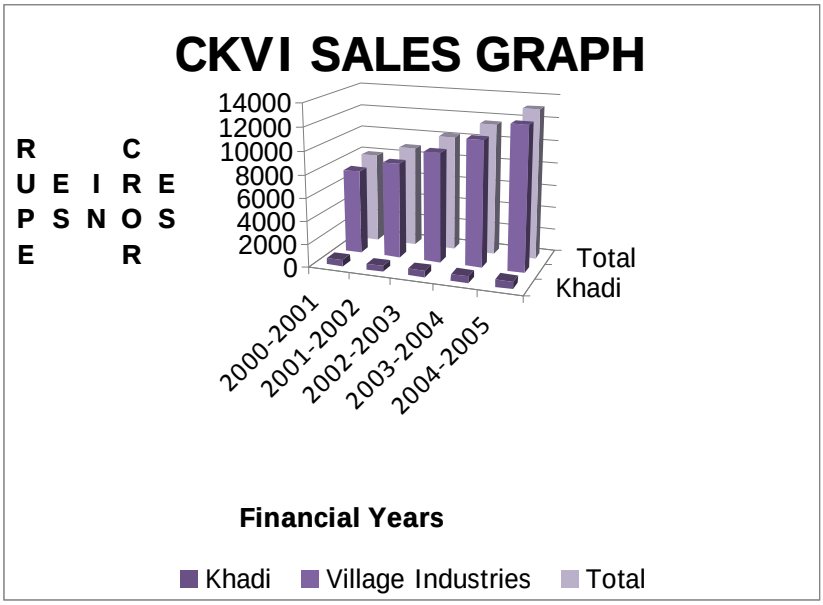
According to the Khadi and Village industries commission, Govt. of India, there has been subsequent increase in the production of both Khadi and Village industries from 2001-01 to 2004-05.the total production was worth Rs. 6923.26 crores in 2000-2001 and it increased to Rs. 10920.43 crores in 2004-2005.

Figure : 3.1



Source:- KVIC 2009

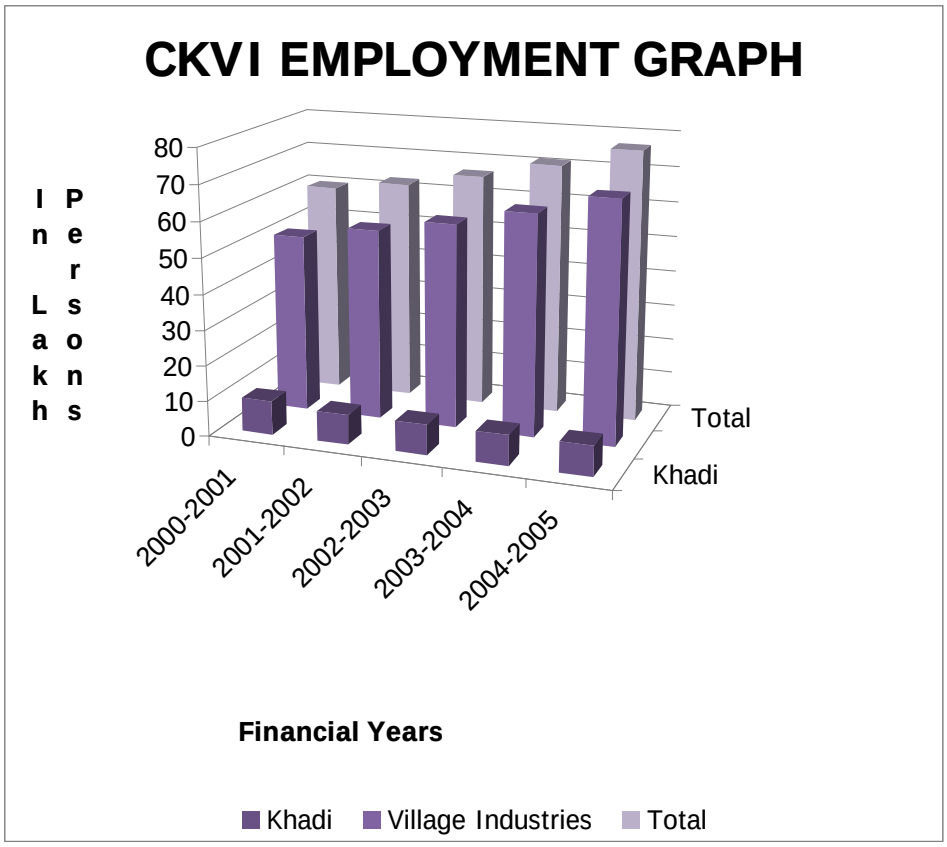
Figure : 3.2



Source:- KVIC 2009

The sales of Khadi & villages products increased from Rs. 7955.1 crores 2001-2001 to Rs. 13105.19 crores in 2004-05, which is almost double. There has been an increased in sales of khadi industry but it is not so significant, whereas, the sales in village products have increase considerably from Rs. 7384.55 crores in 2001-2001 to Rs. 12487.35 crores in 2004-2005.

Figure : 3.3



Source:- KVIC 2009

However, readymade garment sector has shown tremendous performance in the post–reform period. Out of total garment production, 16.85 per cent is being exported. The ratio of exports to production has increased by 8.26 percentage points.

The policy perception on the role and relevance of SSI sector has not undergone any radical changes since independence. While the Nehruvian emphasis under the Mahalanobis models gave way to the target group oriented approaches during the subsequent decades, and finally to the liberalization paradigm since 1991, there have been few quantitative changes in the policy. However, the policy needs to classify : (i) policy perception; (ii) reservation; (iii) role of government, (iv) centre and state relations; (v) technology and competitiveness and (vi) legal framework.

In the post liberalization era, there have been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated to introduce product specific incentives and concessions to small enterprises for product standardization, technology upgradation and modernization**. The policy measures announced during the years 1992 to 1999 for the promotion and development of SSIs are briefly given below (SIDBI, 2000):**

- SSI units engaged in manufacturing delicensed items were exempted from carry on business license on their graduation to medium scale.
- Development of Software Technology Parks in private sector was remitted.
- A National Renewal Fund was set up to project workers affected by technological upgradation and modernization.
- The interest on Delayed Payments to small scale and Ancillary Industrial Undertakings Act, 1993 was promulgated.
- The provisions of FERA for foreign owned corporations were eased.
- A single window scheme of SIDBI for project upto Rs. 5 million was implemented.
- An integrated infrastructural development scheme was launched.
- Financial assistance for the quality ratification scheme was launched to enable small industries to acquire ISO 9000 or similar international quality standards.
- A Technology Development Fund scheme to promote modernization and upgradation of technology and capital goods import was modified by raising the ceiling to Rs. 50 million per unit.
- The eligibility limit for availing of the SSI excise duty exemption scheme as rose from Rs. 20 million to Rs. 30 million.
- A Technological Development and Modernization Fund with an initial corpus of Rs. 2 billion were set up in SIDBI.
- Entrepreneurship Development Institutes were set up in some of the states.
- The Expert Committee on small enterprises recommended new policy directions, investment limits in plant and machinery were increased to Rs. 30 million for SSI and Rs. 2.5 million for tiny enterprises.
- Fifteen items were de–reserved out of 836 items reserved for exclusive manufacturing in SSI sector.
- Measures were recommended to tackle the problems resulting from the Inspector Raj by reducing the contact points and restricting the factory visits by Inspectors.
- Forty per cent of the industrial plots developed under the IIDC scheme were reserved for allotment to the tiny units. NSIC was advised to earmark 40 per cent of the amount of assistance to tiny units in respect of supply of machinery on a hire purchase basis.
- The definition of SSI was revised on December 24, 1999 by reducing the investment ceiling in plant and machinery from Rs. 30 million to Rs. 10 million.

- All industrial units in the north eastern region were exempted from excise duty for 10 years.

Financing of SSIs :

Credit requirements of the small scale industries are basically of two types, viz. long term loans and working capital. The Working Group on SSI sector for the Ninth Five Year Plan (1997–2002) estimated a total additional long term credit requirement for the sector at Rs. 345–365 billion and working capital funds at the level of Rs. 1420–1460 billion, at 1997–98 prices. While requirement of the term loan for the sector is by and large, being fulfilled by the foreign investment, the need for working capital yet remains to be completely met. Over the period of time, the dynamics of development paradigm have led to a change in the perception of the role of foreign investment and banks. For the purpose of credit dispensation to the SSI sector, major national and state level institutions are operating in the country. These include SIDBI, Commercial Banks, Regional Rural Banks. Cooperative Banks, State Financial Corporations, State Industrial Development Corporations, State Small Industries Development Corporations. Other agencies include NABARD, KVIC, NSIC and NEDFI. SIDBI is the all India principal financial institution for financing, promotion and development of the SSI sector both by way of direct finance and refinancing the loan given by banks, SFCs, and other agencies. SFCs and SDCs at the state level are other sources of long term finance for the SSI sector. Commercial banks with their extensive network of branches operating nationwide are primary channels for working capital finance to the sector

Table – 3.25 : Scheduled Commercial Banks' Advances To Small-Scale Industries And Allied Services-Outstanding

(Rupees crore)

Year (End-March)	Balance Outstanding		
	Small-scale Industries	Small Road and Water Transport Operators	For Setting up of Industrial Estate
1	2	3	4
1997-98	45771	3811	191
1998-99	51679	4207	110
1999-00	57035	4893	71
2000-01	60141	4973	167
2001-02	67107	5451	69
2002-03	64707	6568	61
2003-04	71209	8631	149
2004-05	83498	9810	300
2005-06	101285	14940	283
2006-07 P	127323	25138	324

P :- Provisional
*** :-** Data relate to end-December
+ :- Data relate to end-September

Source : Ministry of Small Scale Industries, Government of India.

The above table shows the balance outstanding from 1997-98 to 2006-07. In 1997-08 there were around 45771 units and in 2006-07, it increased to 1, 27,323 units. For allied services like construction of small roads and facilities for water transport etc the balance outstanding in 2006-07 was 25138 and balance outstanding for setting up of industrial estates was 324 crores.

Table 3.26 : Postion Of Sick SSI Units And/ Weak Non–SSI Units Financed By Scheduled Commercial Banks

Year (end–March)	Sick SSI		Sick non–SSI		Weak non–SSI		Sick/Weak total	
	Units	Amount O/s	Units	Amount O/S	Units	Amount O/S	Units	Amount O/S
1	2	3	4	5	6	7	8	9
1999	306221	4313.48	2357	13113.87	435	2036.54	309013	19463.89
2000	304235	4608.43	2742	16748.08	422	2299.21	307399	23655.72
2001	249630	4505.54	2928	18478.17	389	2792.09	252947	25775.8
2002	177336	4818.82	2880	17591.12	381	3654.52	180597	16064.59
2003	167980	5706.35	2999	21518.49	397	7591.4	171316	34816.24
2004	138811	5284.54	–	–	–	–	–	–
2005 P	138041	5380.13	–	–	–	–	–	–

P: Provisional
***:** Data relate to end– June
+ Data relate to end–September
SSI small Scale Industry
O/S Outstanding

Source : Ministry of Small Scale Industries, Government of India.

The table shows the position of sick SSIs and sick non SSIs and weak non SSIs, and their financed outstanding with scheduled commercial banks. It can be seen that since 2001 there is a downward trend in the umber of sick SSIs. It has decreased from 249630 in 2001 to 138041 in 2005. But the outstanding finance scenario presents fluctuating figures.

The key issues influencing the SSI sector policy formulation relate to production, export growth, creation of employment opportunities reduction of rural urban disparity, improving rate of return on investment, lower incidence of sickness and ensuring wide dispersal of industry etc. A study conducted by NCAER in 1996–97 on relative performance of units in specific industry groups in the post reform period (1991–92 to 1995–96) vs. pre–reform period (1988–89 to 1990–91) indicated that the productivity of select industries like scientific instruments, leather and leather goods and supply materials increased in the post reform period in comparison with the pre–reform period. Return on capital considerably increased in respect of woolen hosiery and knitwear, copper and copper alloy and lock making industries. There was an adverse impact in the case of scientific instruments and cotton hosiery industries. Export intensity in the post reform period increased in respect of woolen and hosiery knitwear as against leather and leather products which experienced adverse impact.

WTO and SSIs in India :

In view of emerging challenges in the post WTO regime and removal of quantitative restrictions, a need is felt to assess its broad impact on various activities, product lines in the SSI sector. There are variety of ways in which WTO agreement can impact SSIs in India. The new trade regime offers opportunities for market expansion to small enterprises and also provides a number of protective devices, which can be longimately used to extend relief against increasing imports in response to the elimination of QRs. Both SPS (Sanitary and Phyto–sanitary

standards) and TBT (Technical Barriers to Trade) can prove to be significant threats for Indian SSIs which suffer from disadvantages with respect to technology and quality. Of the top 20 affected activities, ten are from the food processing sector. The remaining 10 represent a variety of sectors. Three are from textile sector, two industries are manufacturing paper and board products, and the remaining are bamboo and cane furniture, cork products and rubber products, office equipment and fertilizers and pesticides etc. Again, it is likely to be grater impact on employment rather than production.

While the WTO is likely to affect almost the entire range of industries, its effect would be pronounced on the SSI sector because of the largely unorganized nature of this sector, lack of data, obsolete technology, poor infrastructure, weak capital base, inadequate access to economies of scale etc. The provisions/ agreements likely to impact the Indian SSI sector under the WTO regime relate to Quantitative Restrictions (QRs), tariff reduction, anti–dumping practices, subsidies and countervailing measures and technical barriers to trade, trade related investment measures (TRIMs) and trade related intellectual property rights (TRIPs) (Kumar, 2001).

The WTO has thrown a documentary challenges to planners, policy makers, industrialists and even to those at the helm of affairs in the developing countries to respond effectively. Enhanced benefits to the SSIs from the improved institutional framework necessitated a thorough understanding by the SSIs of the rights and obligations of the trade rules, knowledge of SSIs about the new opportunities for trade, an active policy of NGOs, continuous monitoring of developments all over the world and insertion highlighting of the problems faced by the various entrepreneurs to the notice of the Government for their resolution at various levels.

The small scale sector which accounts for a substantial quantity of goods and products employment has been uniformly affected by the new economic policies. The present policies are also oblivious to the problems of small farmers and other primary sector producers, especially in the semi arid regions. The presence of MNCs is being increasingly felt and is undermining local manufacturing capabilities as well as research and development. The rising capital intensity is also affecting employment adversely (Kumar, 1996). Several large companies often of multinational origin have begun to buy food for processing, for sale in local as well as export markets. In some cases, contract farming too is practiced. In most of agri–export processes, modern biotechnology seeds are provided from external sources. In the coastal regions of Andhra Pradesh and Tamil Nadu, small scale paddy farmers are being displaced from their land to give away to prawn farming by large companies for export. These prawn farms not only absorb labour, they ecologically degrade the earth by inlet of blackish waters. Importantly, fishing by MNCs in the coastal region has threatened to traditional fishermen (Acharya, 1995 : 16).

The small scale sector, with its limited productivity and elementary technology, produces a substantial quantity of production and provides an even larger proportion of employment. The entry of MNCs in Agri–business, readymade garments, electronics etc. has adversely impacted on indigenous industries and employment in the sector.

The small scale industrial policy of 1991 highlighted in the following areas (SIDBI, 2003) :

- A separate package for the promotion of tiny enterprises was introduced. This constituted the main thrust of government's new policy. The tiny enterprises were also made eligible for additional support on a continuing basis, including easier access to institutional finance, priority in government purchase programmes and relaxation from certain provisions of labour laws.
- The scope of the National Equity Fund scheme was widened to cover projects upto Rs. 1

million for equity support (upto 15 per cent). Single window loan scheme was enlarged to cover projects upto Rs. 2 million with working capital margin upto Rs. 1 million. Composite loans under single window scheme, which was previously available only through State Financial Corporations and twin function state Small Industries Development Corporations, were channelized through commercial banks to facilitate access to large number of entrepreneurs.

- Emphasis was shifted from subsidies/ cheap credit, except for specified target groups and efforts were made to ensure both adequate flow of credit on a normative base, and the quality of its delivery for viable operations of this sector.
- To provide access to the capital markets and to encourage modernization and technological upgradation, equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding was allowed. This was done to give an impetus to ancillarization and sub contracting, leading to expansion of employment opportunities.
- A beginning was made towards solving the problems of delayed payments to small industries by setting up of factoring services through Small Industries Development Bank of India. Network of such services was setup throughout the country and operated through commercial banks.
- The small industries development organization has been recognized as a nodal agency to support the small scale industries in export promotion. An export development centre has been set up in SIDO to serve the small scale industries through its network of field officers to further augment export activities of this sector.
- Industry associations were encouraged and supported to establish quality counseling and common testing facilities. Technology Information Centres to provide updated knowledge on technology and markets were proposed to be established. It was decided to enforce compulsory quality control, and public health.
- A reoriented programme of modernization and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector was intended to be pursued. Specific industries in large concentration/ clusters were identified for studies in conjunction with SIDBI and other banks. Such studies were supposed to establish commercial viability of modernization prescriptions, and financial support was to be provided for modernization of these industries on a priority basis.
- A Technology Development Cell (TDC) was set up in Small Industries Development Organization to provide technology inputs to improve productivity and competitiveness of the products of the small scale sector.
- Adequacy and equitable distribution of indigenous and imported raw materials was to be ensured to the small scale sector, particularly the tiny sub–sector. It was decided to give priority to the tiny/ small scale units in allocation of indigenous raw materials based on the capacity needs.
- Need for developing a strong Entrepreneurship Development Programme and development of a pool of trainers for EDP was also felt.

Small scale units in India have assumed significance not only for their contribution to the economy, especially in the creation of employment, but also for the special patronage they enjoy from the government. Despite numerous policy measures during the past four decades, Indian small scale units have remained mostly tiny, technologically backward and tacking in competitive strength. Notwithstanding their lack of competitive strength, small scale industrial units in India could survive due to product and geographical market segmentation and policy protection (Tendulkar et.al. 1997). The business environment has been changing drastically in the recent times. It is to be noted that protection is a transitory measure and can be used only to

give time to industrial units to improve their competitive strength. All industrial units, small or large have to sustain themselves in their own competitive strength by successfully facing competitive in market economies. Industrial units have to be competitive and commercially viable. In the process of globalization, Indian enterprises, small or large, whether exporting or serving the domestic market, has to face competition. The process has already been initiated for small scale units by placing 586 of the 812 reserved items on the open general licence list of imports. It is to be noted that toys and garments that have been reserved till recent past are already hit by imports (Business Today, July 6, 2001). In addition, changes in the trade policies have taken away the special advantage of small scale units in their supply of imported materials through government agencies at nominal prices.

In the electronic industry, where numerous small scale units are engaged in manual assembly of imported kits/ components of goods like tape recorders have already been hit by the presence of multinationals such as Sony.

Increasing internationalization of production, distribution and marketing of goods and services has given rise to global commodity chains. These chains are the network of business units of various sizes beginning from the stage of raw material supply to production, marketing and retail of any product being located across countries. These commodity chains can either be producer driven or buyer driven. Producer driven commodity chains can be seen for capital and technology intensive products like automobiles and electronics (Gereffi, 1995 : 113). To get into the international production and trade networks, individual units have to satisfy the buyers standards in terms of price, quality and delivery schedules (Gereffi, 1995 : 119).

The Indian electronics industry is undergoing transformation due to the new economic policy of the 1990s and the rapid technological developments in electronics. With the de–licensing of the entire consumer electronics industry and the removal of restrictions on foreign investments, almost all important global players like Thompson, Sony, and Goldstar have entered the Indian industry either directly or through collaborations with the local companies. These multinationals brought in well known global brands and offer consumer wider choice in terms of product features, quality and competitive prices. In addition, all the components, raw materials and capital goods relating to the industry are made free to import and duties on these imports are reduced (Hindu Survey of Indian Industries, 1999 : 121).

Liberalization has exposed all industrial units including small units to market competition to a greater extent; globalization intensifies market competition by allowing imports and MNCs into India relatively early. In order to withstand competition, Indian industries, especially the small industries need to improve their productivity, quality, efficiency and reducing cost of production and marketing.

Industrial Sickness

Industrial sickness is the key event of modern industrial age; and incidence of sickness has been growing in such a large proportions that in the wake of industrial development, a large number of new units covering all types of units in small, large and medium sectors are added in this category. The rapid growth and magnitude of industrial sickness is puzzling issue not only for present but also for all time to come, especially for India coming into 21st Century. It has become a matter of great concern for all; concerned directly or indirectly with the industrial units and policy makers. The society is also affected by the phenomenon, of sickness as unemployment in the wake of retrenchment of workers, spreads widely leading to them out of job. It also affects availability of goods and services and price soar up. The share holders loss their hard earned savings creditors lose their cash and future prospect of business, Besides

entrepreneurs, managers face numerous problems, difficulties in wake of closing down their units or at low productivity that leads financial loss.

Industrial sickness has not come up overnight but it is spreading like silent cancer in all sectors of industrial economy. Various views has been expressed by experts and social scientists on the causes of industrial sickness. Before analyzing the various causes, it is worthwhile to discuss in brief the criteria for identification of sickness. The main Parameters are :

(A). A unit may be considered sick if it has incurred cash loss for one year and in the judgement of the bank it is likely to continue to incur cash losses for the current year as well as the following year and the unit has an imbalance in its financial structure such as current ratio of less than 1: 1 and worsening debt equity ratio. A SSI unit may be identified as sick unit, according to the definition of sick SSI unit, if it has at the end of any accounting year accumulated losses equal to or exceeding 50 percent of its peak net worth in the immediately preceding five accounting years.

(B). Term lending Institutions identify a sick unit on the following grounds,

- Continuous default in meeting for consecutive half yearly installments of interest of Principal of institutional loans;
- Continuous cash loss for a period or two years of continued erosion in the net worth by 50 percent or more;
- Mounting arrears on account of statutory or other liabilities for period of one or two years, and
- There are consisting irregularities in operation of credit limits.

(C). According to the Sick Industrial Companies Act, 1985, sick industrial company means an industrial company which has at the end of financial year accumulated losses equal to or exceeding its entire net worth and has also sustained cash losses in such financial year and the financial year immediately proceeding such financial year. But small scale industries and some other industries do not come under the purview of the said Act.

The various causes of industrial sickness have been analyzed but in the bring there are :

External factors

- Unexpected adverse market conditions for a prolonged period;
- Changes on Government Policies in respect of excise duty, import/export restriction and subsidies;
- Industrial sickness not always originated by the parent companies;
- Disequilibrium between demand and supply
- Recessionary trend
- Rise in cost of production, not compensated by corresponding increase in prices because of Government control and
- Scarcity of critical resources like raw material, power and skilled labour.

Internal factors

- Management Structure and Prevailing work culture
- Economically enviable price structure
- Level of capacity utilization
- Technological up gradation
- Resource mobilization
- Socio–economic factors related to workers, management and business environment.

- Global Competition.
- Environmental Degradation.

Therefore the strategy for attacking sickness may be classified in two category; (i) preventive and (ii) the other curative for the eradication of sickness. These measures can be considered at several stages and levels are institutional finance, entrepreneurs, Government, management and workers.

The large number of SSI units were also closed down due to non–compliance of environmental laws. About 135 units were closed down while 1269 units complied the environmental laws but 147 units become defaulters. Most of the defaulter units were related to sugar, copper and pulp and paper while closed units were mainly refinery, petroleum and copper units. Again, out of total industrial units closed down, most of the units are situated in Andhra Pradesh, Maharashtra and Uttar Pradesh. Similarly, number of units which become defaulter were found situated in Uttar Pradesh, Maharashtra, Punjab and Bihar.

Table – 3.27 : Statewise Sick Industrial Units in India

States	No. of Sick Units SSI	Percentage of total	No.of Sick Units Non–SSI	No.of Sick Units Total	Percentage of total
Andhra Pradesh	12074	9.08	295	12369	5.52
Arunachal Pradesh	456	9.78	2	458	0.20
Assam	15774	52.86	44	15818	7.06
Bihar	24395	8.56	63	24998	11.15
Goa	670	11.63	13	683	0.30
Gujarat	6808	4.97	215	7023	3.13
Haryana	2149	2.40	86	2235	0.99
Himachal Pradesh	735	2.69	32	767	0.34
Jammu & Kashmir	1627	6.23	7	1634	0.72
Karnataka	6680	3.20	171	6851	3.05
Kerala	8969	4.90	85	9054	4.04
Madhya Pradesh	8348	2.91	116	8464	3.77
Maharastra	17925	7.62	410	18335	8.18
Manipur	1919	31.51	2	1921	0.85
Meghalaya	4076	NA	2	4078	1.82
Mizoram	615	15.76	–	615	0.27
Nagaland	1386	NA	2	1388	0.61
Orissa	1889	5.82	57	1946	0.86
Punjab	2376	1.20	69	2445	1.09
Rajasthan	15655	16.60	87	15742	7.02
Sikkim	33	10.0	1	34	0.01
Tamilnadu	12289	3.78	198	12487	5.57
Tripura	2011	NA	6	2017	0.90
Uttar Pradesh	14294	3.99	208	14502	6.47
West Bengal	53617	32.08	240	53857	24.04
Delhi	3580	2.74	34	3614	1.61
India	**221536**	**7.37**	**2476**	**224012**	**100.00**

Source : Estimates from 3rd All India Census of SSI;s. 2001-02

While the causes of sickness may vary from industry to industry and unit to unit in any particular industry, some of the general causes of sickness in the SSI sector are given as under and it is observed that a unit falling sick may be attributed to a combination of the following factors rather than any specific one.

- Inadequacy of raw material *I* inputs
- Deficiency in management of the units
- Delayed *I* inadequate availability of financial assistance, particularly working capital
- Low quality standards adopted by SSI units.
- Delayed payments of receivables from large *I* other units.
- Obsolescence of technology
- Inadequate infrastructure
- Marketing problems
- Labour–related issues

Sickness and increasing NPAs in small and medium/large enterprises are a phenomenon which is not unique only to India. Everywhere in the world industries are facing tough competition which is taking its toll. The increasing sickness has been causing concern to policy makers because of the production assets lying unutilized/ underutilized, the huge assistance from financial institutions/ banks locked up in these units, and the adverse impact on employment in the event of their closure. A small–scale unit is considered as sick when either the principal or the interest in respect of any of its borrowal accounts has remained overdue or has become doubtful advance for a period exceeding two and half years and there is erosion of networth due to accumulated cash losses to the extent of 50 per cent or more of its peak networth during the preceding two accounting years. In case of tiny and decentralized sectors also a unit may be considered as sick if it satisfies the above definition. However in the case of such units it is difficult to get data on financial particulars. Accordingly, a unit may be considered as sick if it defaults continuously for a period of one year in payment of interest or installments of principal, and there are persistent irregularities in the operations of its cash credit account with the bank. Based on these criteria, the RBI has made available data on advances to sick SSI units.

I. Recommendations of the Kohli Committee Report (2000) and the Report of the Working Group on Flow of Credit to SSI Sector (2004).

- The Working Group suggested to propose ways of facilitating credit flow and availability of timely finance to the sector at the right price. Major focus to expedite support to assist the viable units.
- The focus should be on facilitating rather than subsidizing finance. In order to make the SSI sector competitive and efficient, dependence on subsidy by the sector needs to be reduced.
- For healthy and sustainable growth of the SSI sector, strong linkage between large corporate and small-scale units is vital for the sector. The Working Group should examine how successful linkages work.
- Definition of SSI needs to be revisited. It could be based on capital/turnover.
- A shift from the traditional credit delivery mechanism (based on preconceived ideas)to a system based on risk assessment mechanism may be looked in to. Pricing or quantum of assistance should not be subjective.
- Proper risk mitigation mechanism can be achieved, for example, by creation of hedge funds, sharing of risk etc.

- Similarly, Bank-funded Non Bank Finance Companies (NBFCs) (not collecting public deposit) may be considered for undertaking risk assessment and SSI financing.
- Tiny sector should be major focus for micro finance.
- Therefore, emphasis is on the need for new vehicles and instruments viz. bank promoted (non-deposit taking) NBFCs, micro credit intermediaries dedicated to SME financing, etc.
- Such micro credit intermediaries (funded by individual or a group of banks) would be able to credit-rate and risk assess and serve as instruments for extending quick credit to SME clusters, accredited to them.
- The importance of SIDBI's **Technology Bank** for SME upgradation in order to facilitate technology transfer, provide services such as project evaluation, risk assessment and risk mitigation measures for the SMEs exploring and adopting new technologies.
- A dedicated, National level SME Development Fund, promoted by SIDBI /banks, to fund export oriented, high technology SMEs and accredited clusters can play catalytic role in the advancement of the SME sector.
- The role of SME rating agencies and CGTSI needs to be proactive in order to protect the bank advances and publicized widely.
- Special plea for novel funding for SMEs, especially in North East and other backward regions/areas, in order to remove regional imbalances by promoting and developing SMEs, needs to be pursued actively.
- Highly successful micro finance models working in southern states should be actively publicized and replicated, as best practices in other parts of the country.
- Given the potential opportunities, banks may consider adopting Micro Finance Intermediaries (MFIs) to extend their business.
- Since many SFCs have good infrastructure, trained personnel, etc., revival of some of the more active SFCs as state level NBFCs needs to be explored.

II. RBI Circular – Policy Package for Stepping up Credit to Small and Medium Enterprises (RBI/2005-06/131RPCD.PLNFS. BC.No.31/ 06.02.31/ 2005-06 – August 19, 2005)

- At present, a small scale industrial unit is an industrial undertaking in which investment in plant and machinery, does not exceed Rs.1 crore except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods where this investment limit has been enhanced to Rs.5 crore.
- Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as Medium Enterprises (ME).
- Only SSI financing will be included in Priority Sector. All banks may fix self-targets for financing to SME sector so as to reflect a higher disbursement over the immediately preceding year, while the sub-targets for financing tiny units and smaller units to the extent of 40% and 20% respectively may continue.
- Banks may initiate necessary steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise.
- SIDBI has developed a Credit Appraisal & Rating Tool (CART) as well as a Risk Assessment Model (RAM) and a comprehensive rating model for risk assessment of proposals for SMEs.

- The banks may consider to take advantage of these models as appropriate and reduce their transaction costs.
- Reserve Bank had issued a master circular on lending to SSI sector vide circular RPCD.PLNFS.BC.No.03/06.02.31/2005-06 dated July 1, 2005 incorporating instructions on the time to be taken for disposing of loan applications of SSI units, the limit up to which banks are obliged to grant collateral-free loans, etc.
- Cluster based approach for financing SME sector offers possibilities of reduction in transaction costs, mitigation of risk and also provide an appropriate scale for improvement in infrastructure. About 388 clusters have already been identified.
- In the meantime, SIDBI has already initiated the process of establishing Small Enterprises.
- Financial Centres (SEFCs) in select clusters.
- A debt restructuring mechanism for nursing of sick units in SME sector and a One Time Settlement (OTS) Scheme for small scale NPA accounts in the books of the banks as on March 31, 2004 are being introduced. Necessary circulars are being issued in this regard separately.
- The existing institutional arrangements for review of credit to SSI sector like the Standing Advisory Committee in Reserve Bank and cells at the bank head office level as also at important regional centres will review periodically flow of credit to SME, including tiny sector as whole.

III. RBI Circular – Guidelines on One-Time Settlement Scheme for SME Accounts. (RBI/2005-06/153RPCD.PLNFS. BC.No.39 / 06.02.31/ 2005-06, September 3, 2005)

- The revised guidelines will cover all NPAs in SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs.10 crore and below.
- These guidelines will cover cases on which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.
- Cases of willful default, fraud and malfeasance will not be covered.
- Settlement Formula – amount – NPAs classified as Doubtful or Loss as on March 31, 2004, will be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs.
- NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs, plus interest at existing Prime Lending Rate from April 1, 2004 till the date of final payment.
- Payment– The amount of settlement arrived at in both the above cases, shall preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement shall be paid upfront.
- Sanctioning Authority– The decision on the one-time settlement shall be taken by the competent authority under the delegated powers.
- Non-discretionary treatment Banks shall follow the above guidelines for one-time settlement of all NPAs covered under the scheme, without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office.

IV. RBI Circular – Debt restructuring mechanism for Small and Medium Enterprises (SMEs) (RBI/2005-06/159 DBOD. BP. BC. No. 34 / 21.04.132/ 2005-06, September 8, 2005)

- These guidelines are being issued to ensure restructuring of debt of all eligible small and medium enterprises at terms which are, at least, as favourable as the Corporate Debt Restructuring mechanism in the banking sector.
- All non-corporate SMEs irrespective of the level of dues to banks.
- All corporate SMEs, which are enjoying banking facilities from a single bank,irrespective of the level of dues to the bank.
- All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.
- Accounts involving wilful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.
- Accounts classified by banks as "Loss Assets" will not be eligible for restructuring.
- In respect of BIFR cases banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.
- Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.
- Prudential Norms for restructured accounts.
- Treatment of 'standard' accounts subjected to restructuring.
- Treatment of 'sub-standard' / 'doubtful' accounts subjected to restructuring.
- Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal.
- Upgradation of restructured accounts

V. RBI/2008-09/352– Collateral Free Loans - Micro and Small Enterprises (RPCD.SME&NFS.BC.No 84A/06.02.31(P)/2008-09, January 20, 2009)

- The High Level Committee appointed by Reserve Bank to suggest measures for improving the delivery system and simplification of procedures for credit to the SSI sector (Chairman: Shri S.L.Kapur) had, inter alia, recommended that the exemption limit for obtention of collateral security/third party guarantee be raised from Rs 25,000 to Rs. 1 lakh. Accordingly instructions were issued to banks on October 5, 1999 raising the limits from Rs 25,000 to Rs. 1 lakh.
- This exemption limit was further raised from Rs.1 lakh to Rs.5 lakh for the tiny sector, vide circular PCD/PLNFS/No.BC.65/06.02.31/99-2000 dated March 3, 2000.

CHAPTER – IV

PERFORMANCE OF SSIs IN UTTAR PRADESH

Industrial development is directly correlated with the development of the country. However, a number of states in India are backward in terms of industrial development. Even, regional disparity is pronounced in every state. Large and medium scale industries are of special importance in the industrial development of the state. These industries pave the way for the growth of various ancillaries industries and industrial activities in general. The Birla, Tata, Goenka, Sri Ram, Hindustan Leverl Modi, Reliance, and several other business houses and groups are setting up industrial units in the state.

Industrial sector is the second largest sector of U.P.'s economy. Sugar, Vanaspati and Cement are three main industries. More than half of the state's industrial units are situated in Western region. Percentage of large and medium scale industrial units in U.P.:-

Table 4.1 : Percentage of Industrial Units in U.P.

REGIONS	PERCENTAGE OF INDUSTRIAL UNITS
U.P. HILLS	7.60%
WESTERN REGION	51.30%
CENTRAL REGION	24.20%
BUNDELKHAND	1.50%
EASTERN REGION	15.50%

Source: - Report of the Study Group for Preparation of a Roadmap for Rapid Economic Development of U.P. September 2008. (Planning Commission State Plan Division Yojana Bhawan, Delhi)

Despite the fact that U.P. has witnessed significant increase in industrial production during the planned process of development, the state still lacks the requisite level of industrialization. The share of U.P. in the industrial level is way below what may be considered reasonable. U.P. contributes only 6.5 % of gross value of output and 5.5 % of net value added at the country level. It is a matter of concern that the relative position of state in the industrial economy is slipping back as other states are moving or a faster pace.

Not only U.P. has a lower share of the dynamic sectors in the state economy, these sectors are also showing lower growth in U.P. as compared to India. As Virmani has pointed out in a recent article:-

"if the rate of growth of trade et al, manufacturing (regd) and construction in Uttar Pradesh was raised to the mean rate of 6.9 percent , 6.4 percent and 8.7 percent , respectively, Uttar Pradesh (divided)'s SGDP would have grown at 6.4 percent per annum."**(Virmani 2008)**

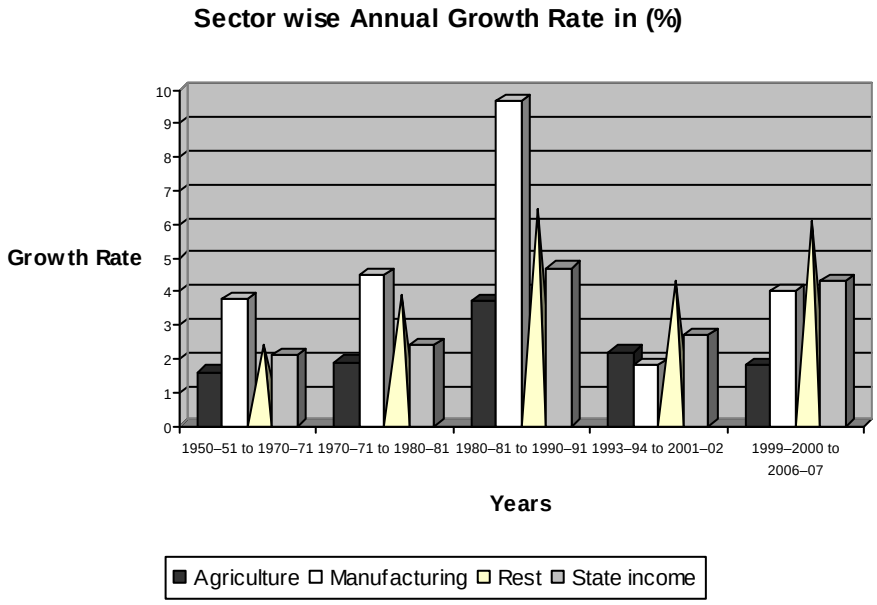


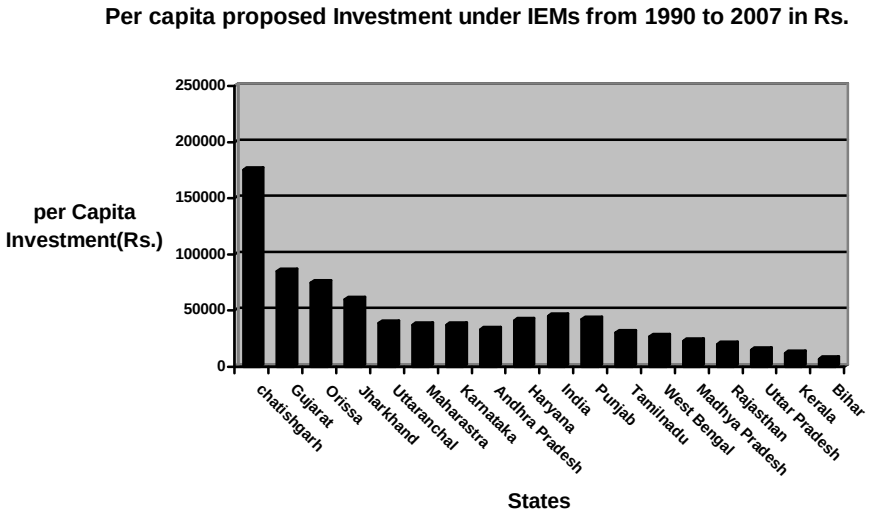
Figure : 4.1

Source : Ibid.

U.P. is not perceived as an attractive investment destination. The state being land locked did not find investors in major export industries. As the export-related growth became important with rapidly expanding level-IT sector, Gems & jewellery, Textiles behind as it had no such expanding export segment and handicrafts were not capable of very rapid expansion and faced stiff competition in the international market.

The textile industry did not modernize and diversify. The state did not have any major specific mineral resource like coal, iron-ore or petroleum which could form the focus for new industries to come up. The private sector investments in social infrastructure, power and roads have not been encouraged in the State in the earlier plans. There is no hard data about the level of private investment in the state. However, whatever information exists is indicative of a low level of private investment.

Figure 4.2 :



Source : Ibid

Analysis of centre for Monitoring of Indian Economy (CMIE) data reveals that private and public investment in industrial projects completed during 1998-2005 amounted to only 1.27% and 0.78 % of state GDP respectively in U.P. against the national average of 1.73 % and 1.51 % respectively. Moreover, 73 % of all completed investments between 2002-05 were accounted for by only three districts- Ghaziabad , Gautam Budh Nagar (Both bordering Delhi) and Sonbhadra, while most district in East & Southern U.P. have received no sizeable fresh investments in the last 8-10 years.

Thus, U.P.'s share in total proposed investment through IEM's in the country between August 1991 and November 2007 was a meager 5.3. In per capita term proposed investment in U.P. has been less than one-third of India.

The inflow of foreign investment into the state has been even less U.P. could get a paltry sum of Rs. 2252 crore during January 1997 and April 2006 as foreign direct investment approvals, which was a mere 1.04 percent of the total FDI approvals of Rs. 2,17,487 crore in the country.

Table 4.2 : Inflow Of FDI s From 1997 To 2006

STATES	TOTAL FDI'S APPROVALS (IN CRORES)
MAHARASTRA	39,235
KARNATAKA	27,068
TAMILNADU	15,648
ANDHRA PRADESH	14,873
UTTAR PRADESH	2,252
INDIA	2,17,487

The FDI equity uniflows in the state is negligible in the period from April 2000 to July 2008. It is almost 0.02% of the total FDI equity inflows Maharashtra leads in this sector with almost 32 % of equity inflows. U.P. ranks 15th in the FDI equity inflows.

Table 4.3 : FDIs Inflows from April 2000 - July 2008

RANK	RBI'S-Regional office	State Covered	Amount of FDI Inflows		% Age with FDI Inflows (Rs)
			Rupees in Crore	US $ in Million	
1	MUMBAI	MAHARASHTRA, DADRA &NAGAR HAVELI, DAMAN & DIU	95,195.18	22,577.80	32
2	NEW DELHI	DELHI , PART OF UP AND HARYANA	54,232.01	12,490.90	18.23
3	BANGALORE	KARNATAKA	20,745.19	4,852.60	6.97

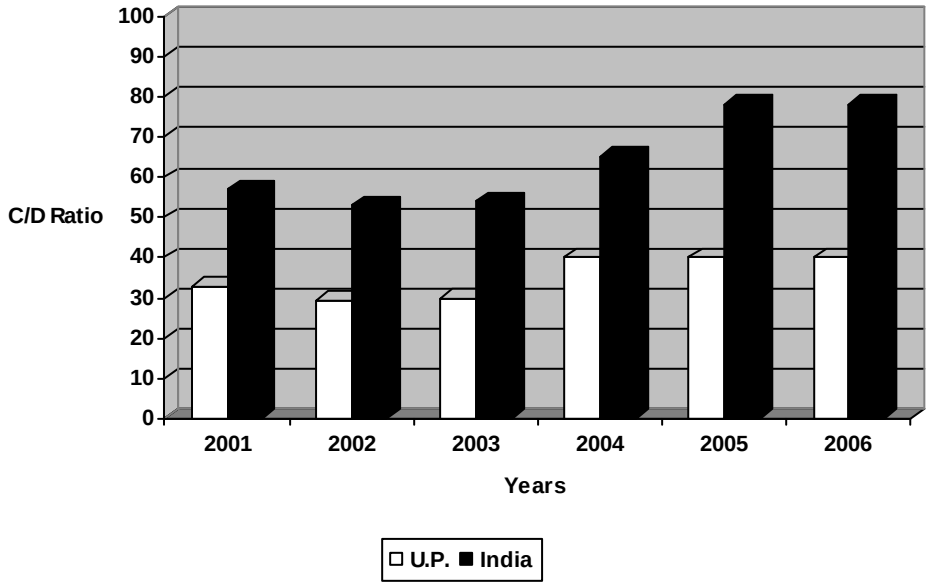
4	CHENNAI	TAMILNADU, PONDICHERRY	17,650.19	4,024.70	5.93
5	AHMEDABAD	GUJARAT	14,736.36	3,505.80	4.95
6	HYDERABAD	ANDHRA PRADESH	13,399.79	3,138.40	4.5
7	KOLKATA	WEST BENGAL,SIKKIM , ANDAMAN & NICOBAR ISLANDS	5,004.14	1,189.00	1.68
8	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA , HIMACHAL PRADESH	1,754.72	384.2	0.59
9	PANAJI	GOA	1,025.93	229.3	0.34
10	KOCHI	KERALA, LAKSHADWEEP	817.52	189.6	0.27
11	JAIPUR	RAJASTHAN	503.18	116.2	0.17
12	BHOPAL	MADHYA PRADESH, CHATTISHGARH	466.51	107.4	0.16
13	BHUBANESH WR	ORISSA	395.52	88.7	0.13
14	GUWAHATI	ASSAM,ARUNACHAL PRADESH, MANIPUR , MEGHALAYA, MIZORAM , NAGALAND, TRIPURA	228.85	53.2	0.08
15	KANPUR	UTTAR PRADESH, UTTRANCHAL	71.66	16.4	0.02
16	PATNA	BIHAR, JHARKHAND	1.78	0.4	0
17	RBI'S REGIONS NOT INDICATED		71,269.02	16,480.20	23.98
Sub Total			297,498.12	69,444.80	100
18	**Stock Swapped**		14,546.64	3,301.10	
19	**Advance Of Inflows (from 2000 to 2004)**		8,962.22	1,962.80	
20	**RBI's - NRI Schemes (from 2000 to 2003)**		533.06	121.30	
GRAND TOTAL (from April 2000 to July 2008)			321,540.04	74,830.00	

Source:-Govt. Of India, Ministry of Commerce & Industry. Sept 2008

Lending by financial institutions, which is indicative of investment attractiveness & industrial growth of a state are extremely low in UP considering its size and population. For instance UP's share in bank loans in the country has declined from 5.15% in 2001 to 3.30 % in 2006.bank credit-deposit ratio in the state is much lower than the national average.

Figure 4.3 :-

Credit Deposit Ratio -U.P. and India



Source : Ibid .

It was as low as 30 percent during 2001 and 2002, but improved to around 40 percent by 2005.UP's share in loans from term lending institutions like IDBI, ICICI and REC has also been quite low between 2 and 3 percent only. Only case of NABARD loans U.P. got a fair share. According to the Uttar Pradesh Development Report, U.P. has a comparable advantage in several industries at the three and five digit levels.

Table 4.4 : Division wise distribution of Industries in Uttar Pradesh

S.No.	Divisions	Districts	Industries
1		AGRA	Shoes, Iron, Petha, Dalmot, Carpet, Playing Equipments
		ALIGARH	Light Machinery
		ETAH	Textile, Brass, Kevchamunga Puls, Iron, Ghungru
	AGRA	FIROZABAD	Glass & Pottery
		HATHRAS	Hosiery, Chemicals, Carpet, Handicrafts etc.
		MAINPURI	Engineering
		MATHURA	Saree Printing, Brass teps & pox, Milk Powder, Jewellery of gilt , Vitamin base industry, Cotton Synthetic yarn
2	*Azamgarh*	Azamgarh	Sugar, Rolling, Edible Oil, Ice, Silk Sarees, Pets of Beack soil, Rice mills, general Engineering etc.
3		Allahabad	Rice mills, Pulses mills & Electronics
	Allahabad	Fatehpur	Steel, Yarn, Leather etc.
		Pratapgarh	Amla

4	*Badaun*	Badaun	Agriculture, Leather , Khandsari, Method Oil Handloom , Kharad
		Bareilly	Furniture, Manjha, Jarijardaus, Surma, Playing Instruments
		Pilibhit	Flute
5	*Basti*	Basti	Sugarcane
		Santkabir Nagar	Sugarcane & Handloom
6	*Devipatan*	Bahraich	Pulse Mills, Rice Mills , Flour Mills
		Balrampur	Sugar, Wood & Handloom
		Gonda	Sugar
		Shravasti	Handicraft
7	*Faizabad*	Ambedkar Nagar	Power loom
		Faizabad	Sugar, Paper, Fertilizer, Cold Drink, Raience , Solvate Extension Oil, Agarbatti
		Sultanpur	Malvika, Indo gulf Fertilizer, Gas Refilling Plant
8	*Gorakhpur*	Gorakhpur	Sugar, Handloom, Terracotta
		Kushinagar	rice, Sugar, Furniture, Oilerspeler, Handloom
9	*Jhansi*	Jalaun	Handicraft
		Jhansi	Tericot, Cement, Ayurvedic Medicine, Fertilizer, Transformer, Bidi
10	*Kanpur*	Etawah	Carpet, Handloom
		Farrukhabad	Potato, Tobacco, Sugar Mills
		Kanpur (Dehat)	Soap, Paint, Vanaspati Ghee, Leather, Machinery etc.
		Kanpur (Nagar)	Leather, Carpet, Cotton, Machinery, Hosiery, Cloths , Jewellery , Defence Equipments
11	*Lucknow*	Lucknow	Chikan, Aeronautics (H&L), Machinery, Distillery Chemicals, Furniture
		Unnao	Leather, Rice Mills
12	*Meerut*	Ghaziabad	Software, Iron , Ayurvedic , Allopathic Medicines, Machinery, Frozing & Casting , Chemicals, Paints
13	*Vindhyachal*	Mirzapur	Mining, Carpet, Brass
		Santrani Das Nagar	Carpets
14	*Moradabad*	Bijnor	Machinery, Handicraft
		Jyotibaphule Nagar	Bidi
		Moradabad	Brass, Playing Instruments, Glass
		Rampur	Sugar, Distillery, Fertilizer, Paper, Printing, Menthol and allied products, Xerox, Television, Wheelbase, Chemicals etc.
15	*Saharanpur*	Mujaffarnagar	Rolling, Sugar, Steel & Paper

		Saharanpur	Wood Art, Paper , Pulp, Card Board
16	*Varanasi*	Chandauli	Rice & Flour mills, HPDI bags
		Jaunpur	Agriculture implements, Edible Oil, Rice mills , Flour mills , Iron goods , Wire net, Carpets
		Varanasi	Banarasi Sarees & fabric, Carpet , Handicrafts etc.

Source : Statistical Diary, U.P. 2007

Industrial Policies of Government of U.P.

Targets to Achieve:–

- Increase in employment in Industrial and Allied Sector from the Present level of 8 to 15%
- 10 to 12 % annual rate of growth in the Industrial sector.
- Raise the share of industry in the Net State Domestic Product from the existing 20 to 25%.

Highlights:–

- Development of infrastructure, through private sector participation
- Comprehensive and rapid development of selected geographical corridors, with high quality infrastructural facilities.
- Up–gradation of existing infrastructural facilities through restructuring of UPSIDC & privatization of facilities in Industrial Estates.
- Private sector participation in major infrastructure Projects, through Infrastructure initiatives fund.
- Fund to associate multilateral agencies and international financial institutions,
- Cabinet committee to act as apex body for infrastructure related projects.
- Working group under chief Secretary to provide preliminary clearances.
- Concentrated and accelerated development of seven specific geographic locations as industrial corridors.
- Corridors to develop as Areas of Excellence.
- Infrastructure Mapping.
- Restructuring of UPSIDC.
- Industrial Co-operative Societies for maintenance of industries Estates.
- All future industrial Areas to be developed as integrated industrial Townships.
- Special Industrial Areas for Promotion of Agro based and Food Processing Industries.
- Up gradation of Infrastructure in major exporting areas.
- 24 hour uninterrupted Power Supply to all industrial areas. Industries above Rs. 50 crores, EOUs and Agro based and food processing industries with investment above Rs. 10 crores.
- Feeders with 75 % industrial load to be declared as industrial feeders and exempted from all power cuts.
- Special concessions for industries drawing power Primary System.
- Industry Association to distribute Power in industrial Areas.
- Permission to surrender apart of load during period of recession.
- Third party sale of surplus Captive power.

- Privatization of Power Distribution.
- Sharing formula for evacuation of Power from Co-generation Units.
- New Road Policy.
- Free Government Land for up gradation of Telecom Infrastructure.
- Air Transport Facility
- Land allotment and transfer rules of UPSIDC to be simplified.
- Simplified process for conversation of land.
- Lower stamp duty for Thrust sector Industries.
- UPFC and PICUP to be developed as Promoters of industry.
- State Financial Institutions to be converted into Banking Institutions
- Mechanism for Provision of working capital for small Scale Industries.
- Simplification and Rationalization of the Tax system.
- Suspension of trade Tax Check Posts from 01.04.99.
- Distribution of Import Permits through Industry Associations.
- State's commitment to low taxation and high compliance regime.
- Training for first Generation Entrepreneurs.
- Diploma Courses in Entrepreneurship Development in Universities.
- Priority to Trained applicants for grant of loans by State Financial Institutions.
- Synergy between Technical Institute and Industry.
- Priority to Training of Youths whose land is acquired for industrial purposes.
- Expertise of technical institutes to be thrown open for use by industry
- New system for time bound sanction of clearances.
- System of Deemed Approvals.
- Pollution zoning Atlas for the State.
- System of Automatic Approvals for industrial building maps.
- Abolition of Inspector Raj.
- Emphasis on attitudinal changes.
- Task Force for review of Labour Laws.
- Delegation of Powers under Contract Labour Act.
- New system of 'Single Table Under One Roof'.
- New post of industrial Development Commissioner for Integration of all industry related activities.
- Directorate of Industries and District Industries Centers to be reoriented.
- U.P. Investment Centers at New Delhi, Mumbai and Calcutta.
- Selected Industries to be developed as Thurst Sector.
- New Scheme of deferred interest loaning for small Industries of the Thurst Sector.
- Industry Promotion Councils for Thrust Sector Industries.
- Agro based, animal based and Food Processing Industry.
- Project preparation Facility for entrepreneurs in the Agro based and food Processing Sector.
- Promotion for Sericulture.
- Progressive Policies for the Sugar Sector.
- Poultry to be recognized as Industry.
- New cluster scheme for small Industries.
- Technology Mission for Small and Village Industries.
- Up gradation of skilled and Technology in the Handloom Sector.
- Five year Price/ quantity preference policy in place of existing Annual Policy.
- Equity Participation by State Government in Private Marketing companies.
- District Industries Centers to help Small Industries in accessing information and latest Technologies.

- New Export Policy.
- Urban Haats for Rural Industries.
- Campaign for identification and rehabilitation of sick industries.
- Prevention of incipient sickness.
- New scheme for Rehabilitation of Sick Industries.
- State to formulate Trade Policy.
- Mining as Industry.
- Partnership with IIT Kanpur for promotion of Information Technology.
- I.T. policy and Action Plan to be announced. Action plan to be implemented in mission mode.
- New initiative in information Technology.
- I.T. in government for better Public service.
- NRI investments in Industries, Real Estate, Infrastructure.
- U.P. Resident Commissioner as New Delhi to function as NRI commissioner for the state.
- Provision of Bulk land.
- Special Facilities for Schedule Caste/ Tribes, Backward, Minority & Weaker Sections.
- Development of Entrepreneurial skills in women.
- Green Card to selected Industrialists and Awards for Special Contributions.
- Monitoring at Chief Minister Level.
- Time bound Action Plan.

Strategy:

- Private participation in economic development of the state.
- Balanced development of tiny, Small & Heavy sectors.
- Strengthening of traditional industries.
- Promotion if Exports.
- Attracting NRI investments.
- Attracting Foreign Investment.
- Assured Security of life & property.
- Recognition of the role of service sector.
- Interaction with industries.
- Formulation of industry specific Tailor made Packages.
- Review of Tax Structure.
- Preservalution of Environment and Culture Heritage.
- Revitalization of existing Investments to make them productive.
- Up gradation of technical entrepreneurial skills.

Performance of the industry sector in the past years

The manufacturing sector, which contributed about 10% in SDP in 1950-51, remained at the same level during 1960-61.the average rate of growth of this sector increased to 6.4% during the 60's decade, as against 206 % during the 50's Rate of growth declined to 5.6% during the seventies and recorded to the level of 7.0% in 80's. The years to year fluctuations in the rate of growth declined gradually from CV 120% (1960-61 to 1990-91) to 74% (1980-81-1990-91).

The manufacturing sector recorded a dismal growth performance of 3 percent during the initial years of Eighth plan. In growth rate for the Eighth Plan calculates at 4.2 percent. In the first plan, this has further dipped to 3.6 percent. This sluggishness in industrial sector may

aggramate the problem of poverty and unemployment. The services sector could not demonstrate significant growth due to sluggish growth of both agriculture and industry.

It is generally, an accepted proposition that industrialization at a rapid rate along with agricultural growth should be treated as the 'engine of growth' of the economy in order to reduce the incidence of poverty and unemployment. Moreover, small industries have a very special and vital place in the economy of the state. The greatest strength of this sector does not lie only in nurturing first generation entrepreneurship, but also in creating immense employment opportunities at a relatively low capital investment.

Recently, U.P. has witnesses' significant growth and structural changes in the factory sector of industries. The modern sector of industries, such as chemicals and engineering has experienced relatively faster growth than the traditional industries such as sugar and textiles. The share of industries based on raw materials from agriculture, animal husbandry and forestry declined marginally from that of consumer goads industries based on non-local raw-materials which declined significantly and the capital and intermediate products industries have gained significantly. The raw material location of specific industries declined in relative importance while footloose industries increased their share substantially. This change has made the state's industrial structure locationally more diversifiable.

The diversification of UP's rural economy becomes imperative from the stand point of employment, distribution and long-term growth. Arguably, the principal instrument of such diversification is naturally to be found in the development of manufacturing activity in rural areas. The rural development strategy has two facts:-

a) To uplift the existing village industries with suitable schemes of assistance and support.
b) To diversify locational pattern of industries-large or small, traditional and modern- in favor of rural areas.

Thus, the introduction of modern small scale industries may serve as an effective instrument for income and employment generation in these areas and there by bringing about a better inter-regional balance in the development process.

It is note worthy that UP has a clear advantage over other states in term of its unmatchable bio-diversity.the hilly zones have their over comparative advantage. The state has had an abundance of herbs used for ayurvedic medicines etc. given below in box, is the special structure of agro-based industries.

BOX. NO.	
AGRO-BASED INDUSTRIES IN UP	
Particulars	**Locations**
Fruits & vegetable processing compels	Ghaziabad
Frozen fruits & vegetable Project	Ghaziabad & Bulundhahar
Vacuum freeze dried fruits & vegetable	Ghaziabad
Potato-based Alcohol Project	Farrukhabad
Potato Flakes/granules Project	Ghaziabad
Onion/ Garlic Powder Project	Mainpuri & Etawah
integrated fruits & vegetables grading , Packaging and cooling centre	Saharanpur

Of late, U.P. has started witnessing emergence of some core sector projects. Electricity generation is drawing investment, even as large scale plants to manufacture railroad equipment, Electrical machinery, basic industrial chemicals, aluminum and cement have sprung up. One of the most benefit development witnessed by UP has been the availability of gas from Bombay High. This has given heavy industries a boost in an otherwise energy deficient State. A couple of Gas based fertilizer plants have also come up to use the gas.

The state's main manufacturing plants make a wide variety of products, including goods carrier equipment, Photostat machines, chemicals, polyester fiber, polyester chips, color picture tubes, watches, jelly-filled cables, sheet molding, compounds and steel tube galvanized sheets. Some projects currently under consideration include plants to make fertilizers, polyester filament yarn, optic fiber, ethylene glycol and photo film.

The government's development focus is on village-oriented small industries, such as handloom, silk and others. The handloom industry meets nearly one-third of the total requirements of cloth in the state. The strength of state's cottage industry can be ganged from the fact that it houses roughly 740,000 skilled artisans. So long as there is demand for their products, they are valuable assets to the state's economy.

UP is ideally positioned to take a lead in India's emergence as a software super power. It is already the second largest producer and exporter of electronic goods and software in India. NOIDA area has developed as the hub of IT activity in the country.

The presence of IIT Kanpur, the premier technological Institute in India has produced successive generations of computer professionals who have spread all over the world and have been in the forefront in the IT revolution. It is imperative to observe that UP is fast emerging on the industrial map of India.

UP with improved industrial infrastructure and vast consumer market has good potential for industrial growth. The fact that UP is maintaining number three position in terms of industrial entrepreneurial memorandum (IEM) in India, next only to Maharashtra and Gujarat, the two most leading states bear's ample testimony to the same position. UP has declared a comprehensive industrial policy to accelerate economic growth with focus on private investment. A number of initiatives have been taken in this connection including a quick system of granting approvals and clearances from a single window within sixty days.

In a bid to honor industrialists, UP has introduced a scheme of VIP gold cards and green cards which entitles the bearers to preferential treatment in government offices, priority in appointments and free entry to the state secretariat. He state has bestowed 'industry status' on films, minerals development, poultry and tourism to give a boost to manufacturing activities. Since April 1999, over 600 small scale units have been in the process of being set up in 30 industrial areas/estates all over the state, in clusters of 20. The government of U.P. has identified six corridors for industrial development. Given below is the table 4.5.

Table 4.5 : Industrial Corridors

❖ NOIDA	Greater Noida, Ghaziabad, Gautam Buddha Nagar
❖ MEERUT	Moradabad, Bareilly
❖ AGRA	Aligarh, Firozabad, Khurja, Kosi (Mathura)
❖ LUCKNOW	Unnao, Kanpur
❖ ALLAHABAD	Bhadohi, Varanasi, Mirjapur
❖ JHANSI	Lalitpur, Jalaun

However, poor production efficiency levels in UP continues to drag down industrial performance. The lack of infrastructure, bureaucratic interference and harassments at the hands of state officials, a lopsided taxation system and corruption make industrial progress an uphill task in the state.

Table 4.6 : Industrial Investment Intentions in U.P. (LOIs)

	2001-02*	**2005-06***	**2006-07***
LETTER OF INTENT (LOI)			
(a)ISSUED			
1)Number	1695	349	360
2)Capital Investments (crores)	43386	18590	9782
3)Employment (working days)	425125	102992	101152
(b) Implemented			
1)Numbers	569	146	146
2)Capital Investment (crores)	19302	5707	5707
3)Employment (working days)	191517	49714	49714
(c)Under implementation			
1)Numbers	412	–	47
2)Capital Investment (crores)	14684	–	1961
3)Employment (working days)	87708	–	10529
(d) Cancelled			
1)Numbers	704	–	116
2)Capital Investment (crores)	9399	–	2486
3)Employment (working days)	145900	–	29703

Source: - Statistical Diary, U.P. 2007 Page 187.

According to the table the states of LOI (letter of intent) fluctuates considerably. It can be seen that in 2001–02 the number of LOIs issued was 1695 but in 2006–07 it came down to 360. The capital investments have also come down from Rs. 43386 crores in 2001–02 to Rs. 9782 crores in 2006–07. The working days have also come down from 425125 in 2001–02 to 101152 in 2006–07.

Table 4.7 : Industrial Investment Intentions in U.P. (IEMs)

	2001-02	**2005-06**	**2006-07**
Industrial Entrepreneur Memoranda (IEM)			
(a)ISSUED			
1)Number	4002	5660	6148
2)Capital Investments (crores)	60385	119590	157408
3)Employment (working days)	681895	2070021	1467679
(b) Implemented			
1)Numbers	1949	1856	2153

2)Capital Investment (crores)	35712	32686	36610
3)Employment (working days)	357431	292002	324502
(c)Under implementation			
1)Numbers	1519	–	197
2)Capital Investment (crores)	14627	–	10187
3)Employment (working days)	31099	–	41278
(d) Cancelled			
1)Numbers	534	–	1157
2)Capital Investment (crores)	7045	–	8978
3)Employment (working days)	93365	–	64195

Source:-Statistical Diary 2007 (U.P.) Page 188.

The table focuses on the statues of IEMs in the state for development of industries. There has been an overall increase in the IEMs in the context of number issued, capital investments and working days. There has been an increased in the IEMs issued from 4002 in 2001–02 to 6148 in 2006–07. The capital investments have also increased from Rs.60385 crores in 2001–02 to Rs. 157408 crores in 2006–07.the working days have also increased from 681895 in 2001–02 to 1467679 in 2006–07.

Table 4.8 : Development of Small Scale Industries in Uttar Pradesh

S.No.		2001-02	2005-06	2006-07
(a)	Industrial units registered under Directorate of Industries (numbers)	177859	552117	580604
(b)	Capital Investment (Crore)	1793	5394	5901
(c)	Employment Regeneration (thousand)	863	2126	2247
(d)	Estimated Production @ (crores)	347	373	944
	Value of products from small industrial units under store purchase programme (lakhs)	–	–	–

@ Yearly Data

Source: - Statistical Diary, Uttar Pradesh 2007. Page189.

The given table 4.8 presents the overall small scale industries scenario in Uttar Pradesh. According to the Directorate of Industries there were 177859 registered units in U.P. in 2001–02 which increased significantly in 2005–06 and 2006–07 to 552117 and 580604 respectively. The capital investment has also increase from 1793 crores in 2001–02 to 5901 crores in 2006–07. There has been a drastic improvement in employment regeneration also i.e. it has increased from

863 thousand in 2006–07. Estimated Production has also gone up from 347 crores in 2001–02 to 944 crores in 2006–07.

Table 4.9 : Factory+ Production in Uttar Pradesh (crores)

		2001-02	2002-03	2003-04
1	Agriculture based industries	19185	21030	22514
2	Garments Industries	5708	5410	5189
3	Livestock	2290	2484	2176
4	Forest Products	147	165	216
5	Minerals Industries	341	457	1982
6	Chemical Based Industries	8482	8541	8910
7	Engineering Industries	12976	16850	17588
8	Mixer Industries	20704	22077	25350
	TOTAL	69833	78014	83925

+ Registered under factory Act 1948.

Source: - Statistical Diary, U.P., 2007.

It can be analyzed from the data given in table 4.9 that agriculture based industries produced highest in terms of factory production followed by Engineering Industries and Chemical based industries. The total factory production has increased from 69833 crores in 2001–02 to Rs. 83925 crores in 2003–04.

Table 4.10 : Industrial Production Index in Uttar Pradesh (1993-94=100)

S.No.	Industry	1993-94	2004-05	2006-07	2006-07
1	Food Processing	205.73	155.06	141.4	166.18
a)	Dairy Products	19.11	126.26	115.41	151.05
b)	Flour	13.1	15.78	8.37	9.95
c)	Rawa				
d)	Maida				
e)	Khandsari	18.76	80.26	82.68	71.44
f)	Edible & inedible Oils	–	–	–	–
g)	Tea	9.66	7.11	1.99	5.46
h)	Local Liquor	0.04	1023.72	1059.05	1165.43
i)	Foreign Liquor	0.17	3117.09	2819.03	3642.21
j)	Malt & beer	–	–	–	–
2	Tobacco & tobacco Products	35.46	169.42	184.65	220.9
3	Cotton garments	20.26	62.16	62.41	64.61

4	Chemicals (except petroleum & coal)	105.9	170.58	185.89	191.64
a)	Spirit	8.19	295.1	353.55	441.18
b)	Urea	36.21	261.93	259.7	264.72
5	Metal & Alkali	62.39	158.08	163.73	165.81
a)	Iron & Steel	–	–	–	–
b)	Paper	13.59	272.33	288.43	314.05
c)	Leather (Buffalo)	–	–	–	–
d)	Shoes	–	–	–	–
e)	Cycle Tube	0.32	62.52	65.66	68.24
f)	Matches	–	–	–	–
g)	Gh 5 Bulb	–	–	–	–
h)	Miniature Bulb	–	–	–	–
6	Transport equipments & parts	33.41	413.01	461.19	416.77
7	Mixer	394.31	152.32	171.12	200.9
	Processing Index	857.46	164.39	174.57	194.89

Source:- Statistical Diary Uttar Pradesh 2007.Page 191

According to table 4.10 the industrial production index in Uttar Pradesh with base year 1993–94 shows that the production of liquor (Local and foreign) was highest followed by spirit, transport equipments and parts, paper , urea, tobacco etc. there has be subsequent increase in almost all the sectors.

Table 4.11 : Development of Khadi & village Industries Board in U.P. 2006-07

S.No.	Item		Achievements
1	Number of units financed by the board.(in lakhs)		3.22
a)	indigenous financial Assistance		
i)	Loan under khadi & village industries commission Plan.(Lakhs)		9476
ii)	Loan withdrawals to private industrial units of district sector under Plan.		
	A)Loan (Lakhs)		7629
	B)Grants (Lakhs)		1144.75
b)	Production (Lakhs)		1830
c)	Employment (Lakhs)		9.26

2	Skilled Workers		5793
3,a)	Registration of co-operative societies		111
b)	Revival/ registration of cooperative societies		145
d)	Disintegration of cooperative societies		13
4	Progress of Departmental plans		
a)	Khadi Production (Lakhs Rs.)		48.14
	Sales (Lakhs Rs.)		40.44
b)	Blanket Production (Lakhs Rs.)		25.85
	Sales (Lakhs Rs.)		5.13
c)	Handicrafts Production (Lakhs Rs.)		0
	Sales (Lakhs Rs.)		0
d)	Departmental Sales (Lakhs Rs.)		72.64
e)	Loan Recovered (Lakhs Rs.)		592.78

Source: - Khadi & village Industries Board (U.P.)

The table 4.11 provides an overall picture of the Khadi and village industries for the year 2006–07 in the state. Around 3.22 Lakhs units were financed by the Khadi and village industries board in 2006–07, loan under Khadi & village industries commission plan was Rs. 9476 Lakhs. Production was Rs. 1830 lakhs for 2006–07.employment was around 9.26 lakhs.5793 skilled workers were there in 2006–07.around 111 cooperative societies were registered in this year. 13 cooperative societies were disintegrated. Khadi production was around Rs. 48.14 Lakhs, and sales were of Rs. 40.44 Lakhs. Rs. 592.78 Lakhs was recovered through loans.

Table 4.12 : The Rules & Acts for the Industries in UP

S.No.	
1	U.P. Electricity (Extracts) Acts
2	U.P. Industrial Area Development Act, 1976
3	The Minimum wages (U.P. Amendment) Act, 1960
4	U.P. Pollution Control Acts (water, air, Environment)
5	U.P. SEZ Development Authority Act , 2002
6	U.P. Vat , 2007
7	U.P. ZA & LR Act 1950

8	Central Sales Tax Act ,1956
9	Indian Stamp Act, 1899
10	Drugs & Cosmetics Act and Rules
11	The Industries (Development and Regulations) Act
12	The Industrial Disputes Act, 1947.
13	The Factories Act, 1948
14	The Land acquisition Act, 1894
15	the Micro, small & medium Enterprises Development Act, 2006
16	The Minimum Wages Act, 1948
17	The SEZ Act, 2005
18	The Securitization and reconstruction of financial assets and enforcement of security interest Act, 2002.

Various Central Government projects have also been setup in the state. The Hindustan Avionics, Sultanpur, ITI Mankapur, Bharat Electronics Kotdwar, and Hindustan Tools, Nainital had started production during 1980s. Units manufacturing motor trucks, motorcycles, scooters, photo copiers, colour picture tubes, polyster film and chips, mini generators, aeroplane parts and electronic telephone exchanges and some other modern type of units had started production during Seventh Five Year Plan.

The production of traditional industries such as sugar, cement, vanaspati, cotton, cloth has not reached to the maximum level what was expected from the traditional industries in Uttar Pradesh. Sugar industry ranks first and be treated as a leading industry of Uttar Pradesh. By the year 1994–95, there were 104 sugar industries which produced 25.55 lakh tonnes of sugar. At the end of 1994–95, 42 sugar factories were under private sector while 19 factories were under corporation and authorized controllership and 18 factories under corporate sector. During 1969–95, there were great fluctuations in the production of cloth and a number of cotton mills are closed down.

Upto March 1998, there were 1312 large and medium scale industries which provided employment to 4,73,910 persons and involving capital investment of Rs. 29,592.56 crores. It is to be noted that most of the industrial units are located in Merrut division followed by Kanpur, Lucknow and Saharanpur divisions. Similarly, out of 3,02,002 small scale industries in the state, most of the industrial units are located in Agra, Kanpur, Lucknow, Varanasi and Bareilly divisions.

Woodwork of Saharanpur, Chikan work of Lucknow, Lock industry of Aligarh, Silk sarees of Varanasi, brassware of Moradabad, Glasswork of Firozabad, Pottery and Ceremic works of Khurja, sports goods of Meerut, Leather and stone work of Kanpur and Agra etc. are some of the internationally known industrial clusters of Uttar Pradesh (Table – 4.13).

Table – 4.13 : Small Industry Clusters in Uttar Pradesh

Cluster	District/ Area
Electronics	Noida
Sports Good	Meerut
Brassware	Moradabad
Carpets	Bhadoi
Glass Work	Shikohabad–Firozabad
Hosiery	Kanpur
Leather	Kanpur
Leather Footwear	Agra
Ceremic Industry	Khurja
Essential Oils	Kannauj
Foundry	Agra
Petha Sweets	Agra
Locks	Aligarh

Source : SIDBI Report, 2001

The following places are also proposed for providing facilities for industrial development with the help of private sector. Such places include Ghaziabad, Bulandshahar, Meerut, Muzaffarnagar, Saharanpur, Mathura, Aligarh, Moradabad, Bareilly, Shahjahanpur, Akbarpur, Etawah, Gorakhpur, Mirzapur, Sonebhadra, Jaunpur and Jhansi. Importantly, the state government is committed to develop new work culture for the purpose of industrial development in the changing economic scenario. The state government has also taken decision to abolish Inspector Raj for the purpose of removing hindrance to speedily industrialization. To improve decision making process, an empowered committee has been formed while strengthening of single window system; deregulation and decentralization of powers have been ensured.

The entrepreneurs also get incentives in terms of trade, information centre, foreign reimbursement, income tax etc. exemptions. Keeping the view of potentials of agro–based industries in Uttar Pradesh, the government has provided friendly support to boost agro–based industries in the state. Export oriented units in Gorakhpur, Muzaffarnagar, Saharanpur, Meerut, Ghaziabad, Bulandshahar, Farrukhabad, Etawah, Mainpuri, Bareilly, Kanpur Dehat, Pilibhit and Varansi have been proposed to set up. Due to its proximity to Delhi and large market for agro–food products, groups like Hindustan Lever, Heinz–Ferro Alloys Corp., Warren Tea, Kissan, Dabur, Flex, Oswal, Tarai Foods, Sahas Agro have already set up agro–food processing industries in the state. The state has direct export of about Rs. 1,200 crores and indirect export of Rs. 1,800 crore. Uttar Pradesh accounts roughly 10 per cent of India's export. The state government has formulated an export policy to promote the level of export from the state.

Industrial Development : Post–Reform Period :

In the after month of globalization, small scale industry holds the key to employment and economic progress, which accounts for the high priority assigned to the growth and development of small scale industry both by the Central and the State Governments. A number of schemes have been initiated by the various state governments to attract prospective entrepreneurs to their own parlours. After Gujarat and Maharashtra, Uttar Pradesh has had the distinction of having received the largest number of Letters of Intent (LOIs) and Industrial Entrepreneurial

Memorandum (IEMs). The Uttar Pradesh Government is resolved to change Uttar Pradesh into 'Udyog Pradesh' and its policies in regard to export and minerals deserve a little more than casual notice. To attract capital investment in the state, NRIs have been provided special concessions. Likewise, to ensure private sector participation in major industrial projects, the development of industrial corridors, marketing of products of small scale industries through private agencies, creation of the single table system and technology mission are being employed as instruments of growth of important industrial groups in the state.

Uttar Pradesh has possessed flourishing clusters of industries like foundries in Agra, leather in Kanpur, glass in Firozabad and pottery in Khurja. The Directorate of industries is planning to launch an integrated project to develop these clusters. To ensure this, an export bureau has been constituted and export cell is being strengthened. Exemption from trade tax on industrial raw materials, VIP status for exporting green industries, revival of labour laws and issuance of cards to entrepreneurs are among other important measures taken by government to boost exports.

There has been a consistent growth of industries in the state under the liberalization process. Uttar Pradesh State Industrial Development Corporation, Uttar Pradesh Finance Corporation, SIDBI, PICUP, Uttar Pradesh State Handloom Corporation, Uttar Pradesh State Export Corporation, Sate Leather Development and Marketing Corporation, Industrial Advisory Service Fund, Institute of Entrepreneurship Development etc. all have assisted in boosting of industries in the state.

To encourage entrepreneurs and to confer recognition on industries of distinction in the state, a star scheme of seven categories has been introduced. The first four top most industries in the star category will be exempted from the hour restriction of the electricity department. Additional power load for star units will be granted on priority basis. Priority will also be accorded to certified star categories in the allotment of plots and sheds by UPSIDIC and the Directorate of Industries. Star industries will also receive loans on priority basis from PICUP and Uttar Pradesh Finance Corporations. Importantly, to promote the growth and development of small scale industries in the state, the Government has been liberal with incentives in the form of exemptions to entrepreneurs under the trade tax scheme, training to industrial craft men. Priority to small industry in government purchases and necessary infrastructural facilities.

CHAPTER – V

ANALYSIS OF RESEARCH FINDINGS

A comprehensive field survey has been conducted in selected clusters of small industries in Uttar Pradesh. A total of 395 industries were selected for detailed survey. In this chapter, analysis of information, data and facts pertaining to nature, working, management and problems of small scale industries has been made. Emerging trends, patterns, issues and perspective have been analyzed in this part of the report.

Nature and Dimensions of Industrial Activities :

Out of total surveyed industries, majority of the industries were tiny and cottage industries (80.75 per cent). This proportion was reported highest in Agra (91.38 per cent) followed by Sultanpur – Kanpur (88.88 per cent) and lowest in Ghaziabad – Meerut (69.07 per cent). Again, the proportion of small–scale industry in the sample was found higher in Ghaziabad – Meerut (30.93 per cent) and lowest in Agra (Table – 5.1).

Table – 5.1 : Type of Industries

Type of Industry	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Tiny and Cottage Industry	84 (91.30)	88 (75.86)	67 (69.07)	80 (88.88)	319 (80.75)
Small–Scale Industry	8 (8.7)	28 (24.14)	30 (30.93)	10 (11.12)	76 (19.25)
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Most of the industries were running round the year (63.79 per cent) while slightly less than one third industries were also found running on seasonal basis. A small proportion of industries was reported to be running on the basis of part time while proportion of sectoral industries was recorded highest in Agra (78.26 per cent) and lowest in Varanasi – Mirzapur (Table – 5.2).

Table – 5.2 : Nature of Establishment

Particular	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Seasonal	72 (78.26)	8 (6.89)	19 (19.58)	27 (30.00)	126 (31.89)
Round the Year	18 (19.56)	108 (93.10)	68 (70.10)	58 (64.44)	252 (63.79)
Part Time	2 (2.17)	–	10 (10.30)	5 (5.55)	17 (4.30)
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Majority of the industries were found manufacturing units (77.21 per cent). The

proportion of manufacturing units was reported as high as 93.10 per cent in Varanasi – Mirzapur and as low as 65.21 per cent in Agra. Again, marketing and processing industries were reported to be 11.12 per cent in the sample. This proportion was reported high in Ghaziabad– Meerut (Table – 5.3).

Table – 5.3 : Type of Activities

Type of Activity	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Marketing	–	–	10 (10.30)	12 (13.33)	22 (5.56)
Processing	–	8 (6.89)	10 (10.30)	4 (4.44)	22 (5.56)
Procuring	–	–	–	–	–
Manufacturing	60 (65.21)	108 (93.10)	67 (69.07)	70 (77.77)	305 (77.25)
Distribution	–	–	–	–	–
Repairing & Servicing	–	–	2 (2.06)	–	2 (0.50)
Specific Production	32 (34.78)	–	8 (8.24)	4 (4.44)	44 (11.13)
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Most of the surveyed industries deal in industrial production (40.25 per cent). This proportion is more pronounced in Varanasi–Mirzapur (65.51 per cent) followed by Agra (41.30 per cent) and lowest in Ghaziabad–Meerut (10.30 per cent). Again, representation of KVIs and handicraft industries in the sample has been found proportionally high. Moreover, a few rural industries were also covered in the sample (table 5.4).

Table – 5.4 : Type of Product's Dealing

Type of Product's Dealing	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Industrial	38 (41.30)	76 (65.51)	10 (10.30)	35 (38.88)	159 (40.25)
Handicraft	30 (32.60)	40 (34.48)	67 (69.00)	–	137 (34.68)
KVIC Product	–	–	–	20 (22.22)	20 (5.06)
Rural Industrial Product	–	–	20 (20.61)	25 (27.77)	45 (11.39)
Others	24 (26.08)	–	–	10 (11.11)	34 (8.60)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

The infrastructural facilities availability is shown in table – 5.5. The facilities were found somewhat satisfactory in Ghaziabad–Meerut and Agra while infrastructural facilities were

poorly reported in Varanasi–Mirzapur. Again, conditions of godown, storage and warehousing, transportation and cooling facilities were reported to be poor.

Table – 5.5 : Infrastructure Availability

Facility	Ghaziabad–Meerut	Varanasi–Mirzapur	Sultanpur–Kanpur	Agra
Telephone	92	97	88	90
Fax/ E–mail	88	9	25	46
Godown	76	59	28	–
Storage & Warehousing	44	30	30	88
Transportation Vehicle	44	20	50	50
Adequate furniture	54	57	58	88
Cooling Facility	10	15	20	66
Electricity and Power	90	116	90	90
Others	–	–	–	–
TOTAL	97	116	90	92

About 80.5 per cent units were found located in cities while only 8.86 per cent units were situated in rural areas. The proportion of units located in towns was found higher in Sultanpur–Kanpur region (27.27 per cent). Again, the proportion of industries located in cities was found higher in Agra and Varanasi–Mirzapur region (Table – 5.6).

Table – 5.6 : Location of Establishment

ocation	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
City	92 (100.0)	108 (93.10)	68 (70.10)	50 (55.55)	318 (80.50)
Town	–	8 (6.89)	9 (9.27)	25 (27.27)	42 (10.63)
Rural Area	–	–	20 (20.61)	15 (16.67)	35 (8.86)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Most of the industries were established during 1990s, however, 17.71 per cent units were reported to be established during pre–reform period. Even the 50 per cent units were established after 1995 (table – 5.7).

Table – 5.7 : Year of Establishment of Unit

Period	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Prior to 1985	5 (5.43)	–	–	–	5 (1.26)
1985–90	24 (26.08)	16 (13.79)	20 (20.61)	5 (5.55)	65 (16.45)
1990–95	26 (28.26)	24 (20.68)	10 (10.30)	67 (74.44)	127 (32.15)
1995–2000	22 (23.91)	76 (65.51)	67 (69.07)	18 (20.0)	183 (46.44)

2000 and After	15 (16.30)	–	–	–	15 (3.80)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Thus, it show that most of the surveyed industries are recently established. About 3/4th units were individually owned while 12.65 per cent units were cooperative establishments. Again, the ownership of industries shows in favour of individuals (table – 5.8).

Table – 5.8 : Ownership of Establishment

Ownership	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Individual	68 (73.91)	85 (73.27)	90 (92.78)	55 (61.11)	298 (75.44)
Joint	24 (26.08)	6 (5.17)	7 (7.21)	10 (11.11)	47 (11.89)
Cooperative	–	25 (21.55)	–	25 (27.77)	50 (12.65)
Government	–	–	–	–	–
Public Sector	–	–	–	–	–
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Average number of workers per unit were reported to be 4.2 while it was reported higher in Sultanpur–Kanpur. Again, 92 per cent employment was found to be regular. However, the industries have predominantly unskilled labour force. Though, a small proportion of workers has also been reported to be skilled (9.5 per cent). However, most of the workers are traditional workers (Table – 5.9).

Table – 5.9 : Average Number of Workers in Industries

Particulars	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Total Workers	368	464	407	445	1684
i. Regular	353	450	325	415	1543
ii. Daily Wage	15	14	82	30	141
iii.Others	–	–	–	–	–
Trained Workforce					
i. Skilled	15 (4.07)	62 (13.36)	68 (16.70)	15 (3.37)	160 (9.50)
ii. Semi–skilled	5 (1.35)	48 (10.34)	60 (14.74)	28 (6.29)	141 (8.37)
iii. Unskilled	148 (40.21)	160 (34.48)	161 (39.55)	140 (31.46)	609 (36.16)
iv. Diploma Holder	–	24 (5.17)	15 (3.68)	28 (6.29)	67 (3.97)
v. Experienced	–	–	–	–	–
vi. Traditional	90	80	70	124	364

Family workers	(24.45)	(17.24)	(17.19)	(27.86)	(21.61)
vii. Traditional non-family workers	110 (29.89)	90 (19.39)	33 (8.10)	110 (27.71)	343 (20.36)

Use of Technology and Raw Materials :

Mostly units are using outdated technology of production. More than half of the industries were found using intermediate technology while 37 per cent units were using traditional technology of production. Only 9.36 per cent units were found using modern technology the proportion of industries using modern technology was found higher in Sultanpur–Kanpur (27.77 per cent) and lowest in Agra and Varansi–Mirzapur industries are predominantly cottage and handicraft industries. Therefore, in these clusters, units are not power/diesel operated. Average cost of land and building has been computed Rs. 12.69 lakhs units it was found higher in the clusters of Varansi–Mirzapur and Ghaziabad–Meerut. Similarly, average cost of tools and equipment has been computed base Rs. 11.19 lakh while it was reported as high as Rs. 19.25 lakh in Sultanpur–Kanpur and Rs. 15.36 lakh in Ghaziabad–Meerut (Table–5.10)

Table – 5.10 : Use of Technology by Industries

Particular	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Traditional	24 (26.00)	46 (39.65)	67 (69.07)	9 (10.00)	146 (36.96)
Intermediate	66 (71.73)	70 (60.34)	20 (20.61)	56 (62.22)	212 (53.67)
Modern	2 (2.17)	–	10 (10.30)	25 (27.77)	37 (9.36)
Power/ Diesel Operated Yes	46 (50.00)	25 (21.55)	20 (20.61)	80 (88.88)	171 (43.29)
No	46 (50.0)	91 (78.45)	74 (79.39)	10 (11.12)	224 (56.70)
Avg. Cost of Land & Building	10.83	15.02	14.31	10.61	12.69
Avg. Cost of Tools equipments etc.	6.17	10.17	15.36	19.25	11.19

The sources of raw materials are shown in table 5.11.

Table – 5.11 : Sources of Raw Material

Sources	Agra	Varanasi–Mirzapur	Ghaziabad – Meerut	Sultanpur–Kanpur	U.P.
Rural	8 (8.69)	6 (5.17)	–	–	14 (3.54)
Semi–Urban	12 (13.04)	57 (49.13)	10 (10.30)	–	79 (20.00)

Towns	24 (26.08)	53 (45.68)	10 (10.30)	22 (24.44)	109 (27.59)
City	32 (34.78)	–	20 (20.60)	31 (34.44)	83 (21.01)
Other States	16 (17.39)	–	39 (40.20)	37 (41.11)	92 (23.29)
Imported	–	–	18 (18.55)	–	18 (4.55)
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Mainly industries are getting raw materials from cities and towns. Even, about one fourth of units get raw materials from other states while 4.55 per cent industries also import raw materials. It was found more pronouncing in Ghaziabad–Meerut cluster where electronic industries get raw materials from other areas. The industrial entrepreneurs were asked the position of supply of raw materials. They reported that they get timely supply of raw materials always (68.60 per cent). However, 19.24 per cent units reported that they get supply of raw materials sometimes. It was (28.86 per cent) followed by Sultanpur–Kanpur (24.94 per cent) and lowest in Agra (2.17 per cent). Thus, timely supply of raw materials to the industries leads to low productivity and causes industrial sickness (Table–5.12).

Table–5.12 : Whether Get Timely Supply of Raw Materials

Particular	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Always	90 (97.82)	92 (79.31)	39 (40.20)	50 (55.55)	271 (68.60)
Sometimes	2 (2.17)	24 (20.68)	28 (28.86)	22 (24.44)	76 (19.24)
Occasionally	–	–	30 (30.92)	18 (20.00)	48 (12.15)
Never	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Only 42.02 per cent industrial entrepreneurs have institutional arrangement while most of the industrial entrepreneurs do not have such arrangement. The proportion of institutional arrangement has been reported higher in Varanasi–Mirzapur where the carpet industries are predominantly higher. Such arrangement has been made mainly through stockists and middlemen (Table–5.13).

Table – 5.13 : Institutional Arrangement for Raw Materials Supply

Particulars	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Yes	6 (6.52)	110 (94.82)	10 (10.30)	40 (44.44)	166 (42.02)
No	86 (93.47)	6 (5.18)	87 (8.97)	50 (55.56)	229 (57.98)
If Yes,Cooperative	–	–	–	7	15

Middlemen	3 (50.0)	24 (21.81)	10 (100.0)	28 (70.0)	65 (39.15)
Stockists	3 (50.0)	78 (78.19)	–	5 (30.0)	86 (60.85)
Others	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Finance is most vital input for industrial growth and productivity. However, financing of industries has been always a critical issue. Almost all the industrial entrepreneurs reported that they managed credit for establishment of industries. It was found more pronouncing in Sultanpur–Kanpur followed by Agra and lowest in Ghaziabad–Meerut. Units in Ghaziabad–Meerut needed small amount of fund to establish the unit. The main sources of finance are predominantly banking institutions (77.32 per cent) however, friends and relatives also provide financial support to invest in industrial developments (Table–5.14).

Table – 5.14 : Financing of the Establishment

Particulars	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Own Investment Yes	92 (100.0)	97 (80.62)	92 (94.84)	97 (100.0)	371 (93.92)
No	–	19 (16.38)	5 (5.96)	–	24 (6.08)
Loan Taken Yes	50 (54.34)	47 (40.51)	28 (28.88)	90 (100.0)	215 (54.43)
No	42 (45.66)	69 (59.49)	69 (71.14)	–	180 (45.57)
If Yes, Banking Institution	42 (84.0)	42 (89.36)	28 (100.0)	85 (94.44)	197 (77.67)
Private Lenders	–	5 (10.64)	–	–	5 (2.32)
Friends/ Relatives	8 (16.0)	–	–	5 (5.56)	13 (6.04)
Miller	–	–	–	–	–
Marketer	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Interestingly, average financing has been Rs. 8.77 lakh per unit. It was reported as high as Rs. 3.5 lakh in Agra. It is to be noted that small industries, particularly handicraft and cottage industries need small fund to establish while modern units need more finance to establish and run. There has been wide gap between the financial need and availability of finance from different sources. The financial gap has been reported to be higher in Sultanpur–Kanpur and Ghaziabad–Meerut (Table–5.15).

Table – 5.15 : Financing Gap in Industries

Group (Rs. Lakh)	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Loan Received 0 – 5	74 (80.43)	32 (27.50)	5 (5.15)	–	111 (28.10)

5 – 10	18 (19.56)	22 (18.96)	45 (46.39)	41 (45.55)	126 (31.89)
10 – 15	–	48 (41.37)	47 (48.45)	49 (54.44)	144 (36.45)
15 +	–	14 (12.06)	–	–	14 (3.54)
Average(Rs. Lakh)	3.5	8.48	11.57	11.59	8.77
Loan Applied 0–5	50 (54.34)	34 (29.31)	–	31 (34.44)	115 (29.11)
5 – 10	42 (45.65)	32 (27.58)	36 (37.11)	–	110 (27.84)
10 – 15	–	26 (22.41)	61 (62.88)	59 (65.55)	146 (36.96)
15 +	–	24 (20.68)	–	–	24 (6.07)
Average(Rs. Lakh)	4.33	8.69	12.62	9.58	8.81
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Business Growth:

Average annual turnover of the industries was reported to be Rs. 27.76 lakh. It was found comparatively higher in Agra and low in Ghaziabad (Rs. 17.60 lakh). Most of the industries have annual turnover higher than Rs. 25 lakh. However, in Agra and Varansi–Mirzapur clusters industries have annual turnover less than Rs. 25 lakh (Table–5.16).

Table – 5.16 : Annual Turnover of Industries

Group (Rs. Lakh)	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
0 – 5	–	–	–	5 (5.55)	5 (1.26)
5 – 10	–	–	8 (8.24)	7 (7.77)	15 (3.79)
10 – 25	19 (20.65)	20 (17.24)	9 (9.27)	2 (2.22)	50 (12.65)
25 – 50	55 (59.78)	30 (25.86)	13 (13.40)	25 (27.17)	123 (31.13)
50 – 100	18 (19.56)	44 (37.93)	–	39 (43.33)	101 (25.56)
100 +	–	22 (18.96)	67 (69.07)	12 (13.33)	101 (25.56)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)
Average	37.70	27.17	17.60	28.58	27.76

The sale pattern shows the business in favour of domestic markets. However, 21 per cent products of the surveyed units are being exposed. It was reported higher in Sultanpur–Kanpur followed by Varansi–Mirzapur (Table–5.17).

Table – 5.17 : Sale Patterns of Units

Sale Point	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Rural	10	–	–	18	–
Town	8	4	1	6	8
Cities	44	22	46	5	39
Other States	26	46	35	39	32
Export	12	26	18	32	21
TOTAL	100	100	100	100	100

Both the mode–cash and credit are in use for marketing of goods and services. This method of marketing is mostly used in Sultanpur–Kanpur while cash sales are high in Varansi–Mirzapur (25 per cent). Again, marketing on credit always hampers to the industrial productivity and efficiency of the organization, cause the blockage of funds, and creates problems to entrepreneurs in operation and management of the units. The sales on credit basis have been reported as high as 48.91 per cent in Agra and overall 38.98 per cent (Table–5.18).

Table – 5.18 : Mode of Payment

Mode	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Cash	5 (5.43)	29 (25.0)	10 (10.30)	8 (8.88)	52 (13.16)
Credit	45 (48.91)	39 (33.62)	38 (39.17)	32 (35.55)	154 (38.98)
Both	42 (45.65)	48 (41.37)	49 (40.51)	50 (55.55)	189 (47.84)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Mostly, industrial entrepreneurs sale goods and services to private agencies (55.44 per cent) and retailers (28.25 per cent). The proportion of private agencies has been reported much high in Agra (75.0 per cent). Again, NGO's are also playing crucial role in promotion and marketing of goods and services in Varanasi–Mirzapur region (Table–5.19).

Table – 5.19 : Agencies of Sale of Goods

Agency	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Government	–	8 (6.89)	–	25 (27.77)	33 (8.35)
Non–Government	–	16 (13.79)	–	5 (5.55)	21 (5.31)
Private	69 (75.00)	62 (53.44)	48 (49.48)	40 (44.44)	219 (55.44)
Shops/ Retailers	23 (25.00)	30 (25.68)	39 (40.20)	20 (22.22)	112 (28.35)
Others	–	–	10 (10.30)	–	10 (2.53)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Only 14.68 per cent industrial entrepreneurs use some kin d of advertising of their goods and services. It was found more pronouncing in Agra followed by Varansi–Mirzapur. Again, three fourth entrepreneurs accepted that they use market turnover as a tool of marketing strategy. However, the market research is not properly and regularly conducted by the industries (Table–5.20).

Table – 5.20 : Advertising and Market Research

Particulars	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Advertising Yes	20 (21.73)	18 (15.51)	10 (10.30)	10 (10.11)	58 (14.68)
No	54 (58.27)	87 (75.0)	78 (80.41)	68 (75.55)	287 (72.65)
Sometimes	18 (19.56)	11 (9.48)	9 (9.27)	12 (13.33)	50 (12.65)
Market Research Yes	78 (84.78)	78 (67.24)	78 (80.41)	65 (72.22)	299 (75.69)
No	14 (15.22)	38 (32.75)	19 (19.58)	25 (27.77)	96 (24.30)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

The entrepreneurs were asked whether their business has contracted. About 40 per cent entrepreneurs accepted that their business has contracted during the last decade. It was found more pronouncing in Varamasi–Mirzapur (49.13 per cent) followed by Agra (39.13 per cent) and Sultanpur – Kanpur (36.36 per cent). It was reported lowest in Ghaziabad–Meerut which has proximity to Delhi, the national capital and established market (Table – 5.21).

Table – 5.21 : Whether Business has Contracted

Particulars	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Yes	36 (39.13)	57 (49.13)	32 (16.24)	33 (36.66)	158 (40.0)
No	50 (54.34)	54 (46.55)	57 (28.93)	47 (52.22)	208 (52.65)
NA	6 (6.52)	5 (4.31)	8 (4.06)	10 (11.11)	29 (7.34)
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Ranking of buying process factors are shown in Table – 5.22. The important factors are quality of products, credit, price, packaging, branding, availability of products, choice of products, innovations in products, advertising effect, and corporate image.

Table – 5.22 : Ranking of Buying Process Factors

Factors	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
1. Quality of Product	2	2	1	1	1
2. Price	1	3	2	10	3
3. Packaging	4	4	4	11	4
4. Branding	5	5	5	12	5

5. Availability of Products	6	6	13	13	6
6. Choice of Products	7	7	6	9	7
7. Innovative and New Items	13	13	10	2	8
8. Credit	3	1	3	8	2
9. Advertising Effect	12	12	7	6	9
10. Corporate Image	8	11	11	7	10
11. Durability	9	8	8	3	11
12. Rebate/ Discount	10	9	12	4	12
13.Gift Schemes	11	10	9	5	13

The entrepreneurs were asked to rank the factors, which improve marketing of products. The important factors are improving distribution network, increasing profit margin, reducing cost of production, reducing transporting cost, increasing credit facility, sales production, improving road infrastructure and training of sales forces etc. (Table – 5.23).

Table – 5.23 : Ranking of Factors Responsible for Improving Marketing of Products

Factors	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
1. Increasing Profit Margin	2	2	2	3	2
2. Increasing Low Cost/ Priced Items	3	4	1	4	3
3. Reducing Transport Cost	4	10	3	5	4
4. Increasing Credit Facility	5	9	4	6	5
5. Improving Road Infrastructure	10	8	5	7	7
6. Sales Promotion through advertisement	6	3	6	8	6
7. Improving Distribution Network	1	1	7	1	1
8. Training of Sales Force	7	5	8	2	8
9. Improving Infrastructure	8	6	9	9	9
10. Reducing Cost of Production	9	7	10	10	10

Similarly, entrepreneurs were asked to rank the factors which influence business. The main factors are adverse market conditions, erratic supply of power, labour problem, management problem, technological upgradation, government policies, pollution and environmental legislation, risk in case of production, scarcity of raw materials, global corruption, inadequate supply of raw materials, low quality standards etc. (Table – 5.24).

Table – 5.24 : Ranking of Factors Affecting Business

Factors	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
1. Adverse market conditions	1	1	1	5	1
2. Government Policies in respect of excise duty	4	13	6	8	6
3. Disequilibrium between demand and supply	15	12		14	15
4. Recessionary Trend	3	11	7	6	8
5. Rise in Cost of Production	14	10		16	8
6. Scarcity of Raw Material	13	16	8	7	9
7. Erratic Supply of Power	2	9	2	1	2
8. Labour Problem	16	2	3	2	3
9. Pollution and Environment Legislations	5	3	4	3	7
10. Management Problem	6	4	10	4	4
11. Technological Upgradation	7	5	9	9	5
12.Global Corruption	12	14	11	16	10
13. Delayed/ Inadequate availability of raw materials	9	15	13	11	12
14. Low Quality Standards	8	6	14	12	16
15. Delayed Payments and Poor recovery	10	7	15	13	13
16. Inadequate Infrastructure	11	8	16		14

The entrepreneurs were asked to rate the existing infrastructure. Overall, the response was found in favour of good, however, 33.51 per cent response scores was found poor. The main problems were related to power and electricity supply. Since most of the entrepreneurs feel that they suffer due to poor and erratic supply of power and electricity. The road condition is also pathetic in some clusters and it causes hurdles in transportation of goods and services (Table – 5.25).

Table – 5.25 : Availability of Quality Infrastructure

Factors	Very Good	Good	Poor	Total
Power	40 (10.12)	118 (29.87)	237 (60.0)	395 (100.0)
Electricity	48 (12.15)	108 (29.87)	239 (60.50)	395 (100.0)
Roads	168 (42.53)	89 (22.53)	138 (34.93)	395 (100.0)
Transportation	268 (67.84)	79 (20.0)	48 (12.15)	395 (100.0)
Communication	395 (100.0)	–	–	395 (100.0)
Total	916 (46.34)	394 (19.94)	662 (33.51)	1975 (100.0)

Though, most of entrepreneurs accepted that they do not face the problem of bankruptcy, however, it was reported as high as 27.58 per cent in Varanasi–Mirzapur. The factors were mainly perpetual business loss and lack of marketing opportunity (Table – 5.26).

Table – 5.26 : Problem of Bankruptcy

Particular	Agra	Varanasi–Mirzapur	Ghaziabad–Meerut	Sultanpur–Kanpur	U.P.
Yes	–	32 (27.58)	–	20 (22.22)	52 (13.16)
No	92 (100.0)	84 (72.41)	97 (100.0)	70 (77.78)	343 (86.83)
If Yes Perpetual Loss	–	22 (68.75)	–	–	22 (12.30)
Lack of Marketing of the Product	–	8 (25.00)	–	5 (25.00)	13 (25.00)
Red Tapism on the part of agencies	–	–	–	–	–
Labour Problem	–	2 (6.25)	–	15 (75.00)	17 (32.69)
Unwanted Intervention of External Agencies	–	–	–	–	–
Any other	–	–	–	–	–
TOTAL	92 (100.0)	116 (100.0)	97 (100.0)	90 (100.0)	395 (100.0)

Thus, the financial assistance, government support in price control, marketing support, adequate supply of raw materials, and availability of quality infrastructure, exemption of trade tax and levies, and technological upgradation may revise industrial sickness.

CHAPTER – VI

PROBLEMS OF SICK SMALL SCALE INDUSTRIES

Despite of several strengths of SSI's, the entrepreneurs in the state of Uttar Pradesh are facing several problems, constraints are challenges. The small industry is confronted with number of problems, constraints, handles, hazards, limitations and rigidities, but of which some are old and chronic whereas the others are new and complicated. The worldwide industrial and economic environment and particularly New Policy regime had also affected the small-scale industries in the state. In a nutshell the following problems relating to small industry in U.P. have been identified:

(i) raw material constraints,
(ii) organizational problems,
(iii) social and cultural value system,
(iv) environmental pollution and other problems,
(v) technological problems,
(vi) manpower development related problems,
(vii) quality related problems,
(viii) Marketing related problems,
(ix) export related problems,
(x) financial problems of entrepreneurs.

Diagnosis of Emerging Problems

As the Indian industry entered into the third millennium, the most daunting challenge it has to encounter in a liberalized global trading system relates to the attainment and maintenance of technological competitiveness while a vast network of technological infrastructure has been built in the country and considerably progress has been achieved in the industrial and scientific arena since independence, many industries, mostly in the small scale sector still suffer from technological obsolescence as compared to that of the international level. More importantly, any technological innovation has not trickled down to the desired extent to the small scale and rural industries. It has been observed that the linkages between R&D and SSI's, and also between on parallel units and SSI's, are weak. Similarly, the linkages between trade consultants, media, websites, trade fairs, industry associations, on the one hand and SSI's, on the other hand, are simply moderate. This is because of the fact that institutional research is not demand-driven and there is mismatch between institution's orientation towards basic research and industry's needs for few or improved products.

With gradual industrialization and advancement of workers having basic workers having basic skills in the trades starting to place strict competition from their competitors, who used advanced technology, modern machines, new designs, etc. This is one of the some very strong reasons of deterioration of their overall condition. There are millions of workers in the state of Uttar Pradesh living in rural areas, suffering from illiteracy, superstitions and financial weakness and unable to enjoy the benefits of technological development. Neither were they brought close to the new technology nor did the technology reach them

Some of the infrastructural inadequacies affecting the SSI sector are absence of design centres, evaluation and demonstration facilities, lack of services and feasibility studies, poor assistance for pilot plant trials, inadequate testing facilities, high cost of maintenance, environment cleanliness, including effluent treatment and disposal facilities, absence of common

facilities, non-availability of developed tool rooms and standards for ensuring quality and accuracy of the work/product, proper storage and handling facilities.

Lack of insfrastructural facilities has hampered efforts towards attainment of technological self-reliance for small-scale industries. The SSI's lack in indigenous technology capability, improved traditional technologies to reduce dependence on advance countries and to export some technologies for striking a better bargaining position for imported technologies. In this context, IT sector is found to be weak mainly due to: (i) inadequate management skills; (ii) lack of access to technological information and consultancy services; (iii) relative isolation from technology hubs; (iv) inadequate quest for technological advancements; (v) inadequacy of financial capability; (vi) low levels of investment in R&D; (vii) inadequate adaptability to changing trends; (viii) non-availability of technically trained human resources.

An industrial production is associated with the problem of disposal of effluents. However, the leather, chemical, sugar and tannery industries have been singled out as pollution intensive industries. There is belief that the large scale unplanned tanning actively can erode the soil. The leather industry is one of the major industries that discharge toxic pollutants like sulphide, phenolic compounds, chromium and other mineral salts, dyes, solvents, etc. Out of which, chromium contributes a major share to the potentially hazardous nature of tannery effluents, owing 15 above hazards a stringent environmental regulations is at present posing an important threat to the growth of leather industry. Most of the tanneries in India are century old with no drainage facilities and no adequate measures to recycle or diffuse the effluent.

Small enterprises are presently handicapped in comparison with large units by an inequitable allocation system for scarce raw materials and imported components. The SSI sector has not shared proportionately, the growing supplies of scarce raw materials. In village industries, raw materials account for more than 60 per cent of the total cost of the product, and in some industries, like leather, oil, metal products it is even higher than 80 per cent. New enterprises face problems in obtaining raw materials in the absence of a proper and equitable policy of raw material distribution.

There has been a decrease in availability of many of the materials needed for craft manufacture and a decline in quality in many of the still available materials. The materials facing the most severe shortage today are wood, cane, silk, scrap and virgin metal. The costs of some of these are rising faster than the Wholesale Price Index.

Importantly, many of the agro-based industries find it difficult to obtain the right type of raw materials at the right time and at moderate prices. Agricultural produce are seasonal products. Agro-based industries suffer from this problem due to their poor financial position. They cannot stock adequate raw materials when they are available. Agro-based industries obtain their inputs from agricultural sector. The output of agricultural sector depends upon the soil, climatic conditions, rainfall, use of fertilizers, pesticides etc. Therefore, agricultural output cannot be increased according to the demands of agro-based industries. Therefore, agro-based industries fall the problem of inadequate raw materials.

Lack of finance has been a serious problem by the small scale industries. This problem becomes acute after 1972-73 policy in terms of modernization and expansion of industries. In the state of Uttar Pradesh, the small business entrepreneurs rely on traditional sources of finance such as personal or family sources or local moneylenders. Credit available through financial institutions is either availed by large entrepreneurs and the smaller ones are deprived of it due to illiteracy, lack of awareness, tedious procedure, followed for obtaining loans, or due to local petty politicking. Large industrial institutions with enormous resources take fuller advantage and

keep growing further. If this problem is not checked now, the large business entrepreneurs may eat up the small industrial entrepreneurs.

Capital is one among the four factors of production. No industry can function without capital. Capital is necessary to carry on productive activities. Capital is also necessary for development and expansion. Therefore, capital is the lifeblood for every business owners of agro-based industries. They cannot obtain adequate financial assistance from the financial institutions, because they do not have right type of security which is demanded by the financial institutions as collateral security. So far their financial requirements, they often go to many lenders who charge exorbitant rates of interest. Small industries face the problem of the irregular supply of power. In many towns and villages, power is not available. So the small agro-based industries have to use manpower to its optimum level and produce the commodities. Thus, the cost of production is very high. At the same time, they are unable to sell their products at a profit. Small industries also face the problem of poor transport facilities. Development of transport facilities is inadequate. In many towns, there are no proper roads to transport the output of industries. The cost of transport also results in an increase in prices. Hence, the products are sold in local areas at low price.

The industries are facing too many visit and inspections by the Government officials regarding sales tax formalities and other such regulations and over-emphasis by Government for implement specifications for buildings, trading to high investment.

One of the major problems which entrepreneurs face today is related to availability of labour. The non-availability of qualified technical manpower is emerging, as a major impediment in the speedy growth of industries.

The small industries suffer from administrative difficulties. Applications for access to almost any form of governance service involve the endless filling of forms. The complexity of procedures, the multiplicity of required clearances, and the low salaries of the junior clerks who are involved at every stage result in wide spread corruption.

As conventional trade barriers disappear in the world economy, a new set of concerns, laudable in themselves, are often extremely difficult to address satisfactorily in developing countries. Child labour is a case in point. Although there are many cases of gross, even criminal, exploitation of children in India, there are also difficult types of child labour. In the small industry, one of the most important obstacles of development is the existing system of raw material distribution and marketing of products. Presence of middlemen in the intermediaries are agents with vested interests are problematic especially for tiny business entrepreneurs. Inadequate market intelligence is another problem faced by the small industrial entrepreneurs. Absence or improper market intelligence reduces the foreign exchange earning capacity of the industry. This processes more and more sophisticated finished products for exports.

From the marketing aspect, the main problems identified are: (i) packaging; (ii) pricing; (iii) selling; (iv) promotion; (v) transport; (vi) market information. Importantly, traders and exporters far better. Although many exploit the vulnerabilities of their suppliers, there are also a good number of entrepreneurs who are committed to improving the lives of crafts persons, and who conduct their enterprises with integrity and dedication. A number of these people have established businesses that are recognized as true pioneers in the field. Exporters complained about the difficulty of obtaining credit. The problems they face are in fact, similar to those faced by crafts producers. Procedural complexities, inefficiencies and corruption of government officers are perennial problems being faced by business entrepreneurs. Export procedures from India are complex. It is very difficult for an individual buyer on a short trip to find economical

ways of shipping home a small order. Most agencies work on a container basis, even if they agree to accept a smaller order, they will charge extremely high rates. Individual crafts producers, NGO's and small retailers cannot offer this kind of service, which means that visiting buyers can purchase from them no more than they can fit into their unit case.

Globalization has brought on some qualitative charges. Export potentials generally enable easier credit flow and financing. Nevertheless, the export market continues to be characterized by some disturbing features. There is usually a very wide differential between manufacturer's price, export price and retail price for all hand made products. The carpet is an established trade. In relatively new products, the differential can also arise from lack of information on the part of buyers about the true manufacturing costs. Importantly, limited information and finance restrict access to three key means of value addition: training in skill upgradation, design input and technical advancement. Insufficiencies in accessing and understanding viable new markets pose another challenge.

Rapid globalization and changing domestic preference have brought the industries face to face with a unique set of challenges. The problems these industries face is not one of universal unqualified obsolescence in the face of competition from mechanized industries. To the contrary, the demand for handcrafted goods has the potential to expand together with growth of world and domestic tourism, and with spending on interior decoration. While export–share grown, the pattern of change in the domestic market has been complex. By and large, the Indian consumers show an increasing preference, for factory made goods and particularly products of MNC's. Factory made products or MNC's products have the advantage of uniform quality, while quality of small manufacturer's item is inconsistent. Large manufacturers and MNC's have ample budgets for market research, product development, and advertising, which allow them to keep in tune with consumer needs. Factory made and MNC's products can usually be sold at the lower price because of reduced cost of production due to use of improved sophisticated technology of production and managerial efficiency. The small industrial entrepreneurs face the problems of increased competition from organized sector as well as access to infrastructure, credit, technology, markets and retailing.

Thus, globalization, liberalization and marketization of economy have posed challenges to SSI sector which need to be faced with preparedness. Business process re-engineering, R&D, technological upgradation, enhancing competencies of human resources, enhancing financial creditability, widening the scope of marketing, policy support in terms of credit, raw materials, technology transfers, prices, trade tax excerption, etc., need immediate attention of policy makers to revive the industrial productivity and enhancing the managerial efficiency.

CHAPTER – VII

CONCLUDING OBSERVATIONS RECOMMEMDATIONS AND ACTION PLAN

The last quarter of the 20th Century will be remembered for the massive changes that have transformed the world. Technological change has influenced every walk of life be it manufacturing or services, private or public, domestic or multinationals. During the globalization process, most economies undertook policy changes; some are radical in nature, to usher in economic liberalization and internationalization of products and services. In the face of severe competition from the global market, India too adopted a path of structural change in the early 1990s. The process was initiated by the introduction of 'New Economic Policy' in 1991. Change in an organization involves altering its structure, process, the behaviour of its management and staff, by its strategy, the environment, and so on. The organization's structure is perhaps one of the most common targets of change. Organizational change has to be seen in association with the character and stage of management, in general, and the organization's leadership in particular. Over the years, the role of leadership has assumed greater importance at all levels of an organization. Leadership has also undergone a change in character.

Globalization and Technological Change :

Globalization and the widespread application of micro–electronics, besides that of the internet, are associated with the radical changes which have taken place recently. The widespread use of IT has accelerated in general and transmission of information, making communication more efficient than ever before. Information technology is revolutionizing the way we communicate, work, shop and play. Computers and the internet are paving the way for a sweeping reorganization of business, from online procurement of inputs to greater decentralization and outsourcing. By increasing access to information, IT has made the working of markets more efficient. By reducing the cost of communication, IT has held globalize production and the capital markets. Globalization has further accelerated competition and innovation. It also speeds up the diffusion of new technology through trade and investment.

The winds of change began sweeping the developed economies and many of the newly developing or developed economies, including China and the south east Asian countries, in the late 1970s, and early 1980s. However, India's economy and its corporate sector begin to realize the impact of the new wave as well as the urgency of the need to change only by the last 1980s, and early 1990s. The gap between the developed world and India – in terms of technology, productivity, income levels, the availability of new products and services and their quality had widened. Despite the reforms initiated since 1991, Indian government, corporate sector and trade unions are still struggling with the changing realities of the new paradigms. Many organizations have already perished in this threatening environment, while many others are trying to combat it. A combination of fear (of facing the competition) and as unwillingness to give up a product environment are perpetuating the inefficiency of several organizations. Many Indian organizations have failed to evolve a system of shared goals and values, and do not ready to face the challenges of change.

The world economic scenario has undergone a metamorphic change. There are several forces which are moving the world towards a single economy. Advances in transport and communications and the technology revolution have reshaped competition, helped reduce costs, improve production methods and make products available for world wide distribution. Importantly, liberalization of restrictions on capital movements, deregulation of domestic capital markets are further integrated global financial markets and services.

With the liberalization, privatization and globalization of economy, competition has increased and changed the business environment which now requires business re–engineering. Significantly, with the flood of foreign brands of products, Indian brands are facing a serious challenge to survive and companies are forced to redesign their marketing strategies for effective marketing and penetration in markets. Moreover, foreign companies are also trying best to tap the existing potential and exploring markets for effective marketing of their brands. With the opening up of the economy, major players in the electronics and consumer goods have entered India through strategic alliances and some of them are also targeting the rural markets. Significantly, the media revolution has shrunk the world to become one large market where there is convergence of global consumer's wants and preferences. There is universal demand for standardized goods that are advanced, reliable and low priced. This has led to the emergence of global brands, common distribution systems, and unified advertising strategies with worldwide appeal and search for economics of scale of operations. Globalization of the world economy has now become a reality. India too has to meet the challenge being thrown up by the changing global vision, reorient their marketing policies and progammes and design appropriate strategies to make their presence felt in the global markets.

India has significantly changed the policy environment and has forced domestic firms to review their strategies. The success of the new policy regime may well depend on the strategies adopted by these firms and the fine tuning of policies that impinge on firm level choices. An in–depth analysis of corporate strategies in the post 1991 era can provide useful insights in the corporate decision making process and pointers for refinement policy. The economic liberalization and the associated opening up of the Indian economy has changed the nature of oligopolistic rivalry in the Indian context. New strategies for developing technological capabilities and acquiring a variety of complementary assets and intangible assets have become important. Moreover, private sector in India responded favourably to economic reforms with larger investment in the early 1990s. The MNCs have played an important role in the mergers and acquisitions. MNCs have typically used the acquisition route as an entry strategy to strengthen their presence in the country. Broadly, acquisitions have been utilized to access quickly the manufacturing, marketing and distribution facilities. A total 11,169 foreign collaborations were approved during August 1991 to August 1997. Of these, nearly 58 per cent were accompanied by some amount of foreign equity. In a broad way, the following points emerge from analysis of corporate response to liberalization :

- The Indian corporate sector is vigorously restructuring itself to retain competitiveness. Restructuring is mainly geared towards consolidation in a few chosen areas to correct the efficiencies created by over diversification in the pre–reform era.
- MNCs have actively participated in the mergers and acquisitions process to get market entry or to strengthen their presence.
- MNCs are better placed its axis domestic firms in the acquisition game because of their deep pockets and relatively cheaper access capital.
- The reliance of the Indian corporate sector on foreign technology purchase has increased. More and more technology flows are now with equity.
- Firms are making efforts to improve manufacturing capability. This is being done through building alliances as well as through initiatives within the firm. Quality upgradation seems to be their key priority. The efforts at improving manufacturing capability may still prove to be inadequate to meet the competitive challenges.
- Product differentiation strategy seems to be dominating over strategies of building distributed and marketing related complementary assets.
- Export based growth strategies are being adopted by some of the corporate sector firms

but such strategies are not widespread, export orientation increased appreciably in the early years of reforms but has been a major collapse since 1997–98.

- The performance of the Indian corporate sector in the 1990s has shown mixed tendencies, profitability rates, export preference as well as export to import ratios.

A more liberalized environment means more competition. Obviously, the more efficient companies will survive while the less efficient ones will not. It is expected that family run business will do well in the liberalized economy. The liberalization has brought change. The change may be a threat for business or a promise to introduce reforms to adopt the changed environment. Business re–engineering has been used to describe the full range of change initiatives from the narrowest operational improvements to the broadest restructuring. The fundamentals of business have changed towards flexibility, team work, customer focus, and speed to market, quality management and most importantly, the realization that being complacent with the status quo is certainly the fastest way to loose one's leadership position. Significantly, new markets, new alliances, new customers, are emerging every day. The following points emerge from the analysis of business reengineering in the changed environment:

- Customer's perspective is the only perspective.
- Management commitment and involvement.
- Far reaching goals combined with continuous measurement of performance.
- End to end view of processes, across all functional and organizational boundaries.
- Operationist focus around customer driven business results.
- The elimination of non–value added activities.
- Ownership at all levels of the organization and people empowered with knowledge, tools and authority.
- Timely dissemination of information.
- Continuous improvements.

The economic reforms have stabilized the economy and in the 1990s, investment took off with deregulation of industrial activity. There has been a shift in government policy in spending in favour of the creation of assets and infrastructure. Institutional changes to make effective public or private investment in infrastructure need consideration. The performance of states such as Gujarat, Maharashtra and Karnataka in attracting new investments relative to the other requires an understanding of the strengths and weaknesses of alternative approaches.

Indian economy has many positive factors to achieve higher growth in future (Tarun Das, 2003) :

- India is the fourth largest economy in the world after USA, Japan and China in terms of purchasing power parity adjusted GDP.
- India posses the eight largest industrial state in terms of stock of capital.
- It posses huge domestic market with second largest population after China and a middle class in the range of 150–200 million.
- India has the third largest pool of scientific and technical manpower.
- India is the largest democracy with multi party system, free press, independent judiciary, efficient administration, a long history of private enterprise and a strong institutional base for development.
- India has vast natural resources. It ranks sixth in coal and iron ore reserves, fifth in bauxite, 17^{th} in crude petroleum, and 23^{rd} in natural gas reserves.
- India ranks first in production of milk, millet, ground nut, tea, jute, mangoes, and bananas,

stock of cattle and buffaloes, second in arable land and irrigated area, production of rice, wheat, rape seed, sugar cane and tobacco, and third in production of cotton, natural rubber.

- India ranks 19th in terms of value added in industry – first in production of sugar, fourth in nitrogenous fertilizers and coal, fifth in cement and iron ore, ninth in electricity generation, tenth in steel, 13th in commercial vehicles, and 20th in crude petroleum production.
- India has cheap but reasonably skilled and dedicated labour force and peaceful industrial relations.
- India has strategic location to cater the markets in the south, east and west Asia and can even be gateway to the markets in Europe and Africa.
- India has vast network of matured banks and financial system with several large commercial and financial institutions and insurance companies.
- India has a diversified and well spread infrastructure. It ranks one of the 20 largest telecom networks in the world.
- During the last four years , India achieved the highest average growth rate of 8 per cent. India's growth was exceeded only by China in 1980s and 1990s.
- External sector liberalization, tariff reductions, industrial delicensing and financial sector liberalizations contributed to more efficient allocation of capital and resources. But the gains were limited to a few sectors like aluminium, steel, automobiles, drugs and pharmaceuticals, telecommunications and information technology.
- India has comparative advantage in services, knowledge based, resource intensive and agro–based industries. But the potential of labour intensive and agro–based industries is untapped.
- The new development strategy must attach a high priority to the development and maintenance of efficient infrastructure like power, transport, roads, telecommunication, energy etc.

The following positive factors for the development of Uttar Pradesh and making it Uttam Pradesh emerge from analysis of situation, investment climate and growth in economy as indicated by a study conducted by PHDCCI :-

- Uttar Pradesh ranks first in production of wheat, sugarcane, maize, potato, livestock and milk while it tanks second in production of mango, third in production of rice, fruits and vegetables.
- State ranks first in length of railway route, bank branches, newspapers/ periodicals, and post offices.
- Uttar Pradesh – the cradle of Indian culture has had a pioneering record in industrialization also.
- State has an area of 9 per cent of the country's total area. Its size (Uttar Pradesh and Uttaranchal) is bigger than all common wealth member country's of Europe put together, bigger than New Zealand, Yugoslavia and North/ South Korea and almost as big as Philippines with a population of 174 million (Uttar Pradesh and Uttaranchal) people, Uttar Pradesh forms the largest market and offers an unprecedented opportunity for industrial investment.
- State's strategic location in the north–west part of India and sharing borders with Tibet and Nepal makes it prominent among the rest of the states of Union.
- State's economy is predominantly agricultural one while it is rich in natural resources.
- It has vast network of roads, railway and telecommunications. Systems have been improved in the state to increase the industrial growth. Important features include highest density of rail and road network, large number of schools, engineering colleges and management institutions, well developed telecommunication infrastructure. A chain of economy and

luxury hotels and plenty of technical and skilled man power exist in the state. State financial institutions namely PICUP, UPFC, SIDBI have streamlined their procedures which are aimed at solving the problems of entrepreneurs and to fasten the pace of industrial development.

- State's New Okhla Industrial Development Authority (NOIDA), a model industrial area on the outskirts of Delhi provides proper environment for running the small scale industries and export of produced goods and products.
- Uttar Pradesh has initiated and implemented policies of industrial development, tourism, agriculture, roads etc. It has also established empowered committees and council for industrial development.
- The state is ranked fifth in terms of industrial growth rate among the major states of India.
- During April 2000–July 2008, Uttar Pradesh receives 0.02 per cent of FDI in India. It has 10^{th} rank among the states of India. Investment in manufacturing sector during 1980s and 1990s has been reported to be about 11 per cent of investment in India.
- The policy changes in the state show tremendous scope for industrial development and making Uttar Pradesh into 'Uttam Pradesh'.

Uttar Pradesh, on its own could be the world's seventy largest country by population. It is regarded as the nerve center of the country. The state treasures its rich cultural and historical traditions as much as its political clout in India. The state has sensibly spotted industrial opportunity in agro based processed products. Apart from sugar mills, paper rollers, cotton mills, alcohol fermentation, oil seed squeezers and so on. Uttar Pradesh has thrived on floriculture, mushroom farming, dairy products and value added horticulture produce. With the national processed foods market poised to grow rapidly over the next few decades, Uttar Pradesh is in great shape to serve itself up as the right place to set up production units.

Uttar Pradesh has clear advantage over other states in its unmatched bio–diversity. However, the organized industrial sector of Uttar Pradesh has been confirmed to agro–industries such as sugar, cotton, textile, edible oils, paper, chemicals, engineering, glass, handicrafts, leather and liquor. However, some core sector projects have also got moving. Electricity generation is drawing investment, even as large scale plants to manufacture rail road equipments, electrical machinery, basic industrial chemicals, aluminum and cement have sprung up.

Thrust areas identified for the Organized Sector

Organized Sector at three digit level	drivers (industry Sub–component) identified through five digit Analysis within the Broad Industry Segment
A) FOOD PRODUCTS	
i) Sugar	Refining Sugar
ii) Vegetable Oils	vegetable oils–non solvent and solvent extraction
iii) Dairy Products	Pasteurized milk
B) TEXTILE–BASED PRODUCTS	
i) garments Cotton thread spinning and weaving of fabrics using man made fibers	textile garments and clothing accessories, man made fiber , spinning of cotton fiber (industrial blended cotton)
C) CHEMICAL BASED PRODUCTS	

i) Fertilizers & Pesticides	Urea and organic fertilizer.
ii) Refined Petroleum products	Other Petroleum Products
D)BASIC GOODS	
i) Aluminum Products	
E)CAPITAL GOODS	
i)industrial Machinery (Electrical) Agricultural machinery	No drivers emerged out of top 21 five digit analysis showing a steep decline in U.P. industrialization in these sectors.
ii) computer software	Emerging area
iii)Floriculture Biotechnology	Emerging area

Source:–Uttar Pradesh State Development Report, Planning Commission 2007, New Delhi.

U.P. has a sizeable presence in several industrial groups at the three and five digit levels . The Thrust areas has been identified in industries in which U.P. has a comparable advantage and is showing promise in terms of growth .

Thrust areas Identified for the Unorganized Sector

Urban Unorganized Sector	Rural Unorganized Sector
Wearing Apparel	Brick Making
Cotton & cotton Mixture fabrics	Tailoring
Textile Garments	Structural Wooden Goods
Sweet meals	Gur Making (Jaggery)
Flour milling	Gold Jewellery
weaving	Indigenous Sugar
Manufacture of PVC/Wooden windows	Porcelain china
Rice Milling	Silk

Source: – Uttar Pradesh State Development Report, Planning Commission, 2007, New Delhi.

The state's main manufacturing plants make a wide variety of products, including good carrier equipment, phosphate, machines, chemicals, polyester fibre, polyester chips, colour picture tubes, watches, jelly filled cases, sheet moulding industry, compounds and steel tube galvanized sheets. In all, Uttar Pradesh has 6075 industrial units. The government's developmental forces is on village oriented small industries such as handloom, silk and others. The handloom industry meets one third of the total requirement of cotton in the state under the

public and private sectors. More than 44000 persons are employed in these mills. State has more than 7.40 lakh skilled artisans.

Poor production efficiency levels in Uttar Pradesh continue to drag down performance, even as law and order problems along business that would otherwise be comfortable. The Uttar Pradesh administration has not been investment friendly. It also lacks infrastructure and private participation in industrial development.

The small scale industry sector contributes 40 per cent of the gross industrial value added in the Indian economy. It provides 80 per cent of private industrial employment and contributes over 45–60 per cent of Indian exports. The SSI reservation policy had two main objectives : (i) expand employment opportunities through setting up small scale industries, (ii) ensure increased production of consumer goods in the small scale sector. With increasing global integration through WTO, opening up of the Indian economy and formation of the trade zones, the SSI reservation policy, designed to promote self sufficiency and protect local employment has lost its relevance. Reforms in SSI sector are crucial for India to emerge as a competitive manufacturing base. SSI showed a growth rate of 12.32 per cent in 2005-06 onwards and the sector growth rates have been higher than the industry as a whole which was 8.10 percent in 2005-06. However, official estimates put SSI sickness at 10 per cent, while unofficial estimates put SSI sickness at 40 per cent. Thus, only 1.92 million SSI units are found to be viable for production. Lack of capital, technology and productive human capital makes these units perform at a fraction of global benchmarks.

Inability to compete with increasing competition, especially from China, the SSIs are still enjoying reservation of 63 items that constitute over 80 per cent of SSI output. The need is to make out SSI sector competitive and dynamic. The policy changes recommended that SSIs should be growth oriented, and should attract increasing capital, professional management and development of productive human capital.

A cluster is sectoral and geographical concentration of enterprises faced with common opportunities and threats which gives rise to external economies, favours the emergence of specialized infrastructure and services and enables cooperation among public and private local institutions to promote local production, innovation and collective learning. Some distinguishing features that industrial clusters should have are : (i) Geographical proximity, (ii) sectoral specialization, (iii) predominance of small and medium sized firms, (iv) close inter–firm collaborations, (v) inter–firm competition based on innovation, (vi) a socio–cultural identity which facilitates trust, (vii) active self help organizations and (viii) supportive regional and municipal government.

Cluster of a large number of small scale manufacturing units boosts the effectiveness of policy programmes targeted at manufacturing development because of the economies of scale and concentration advantages. The similarity of needs and support requirements, speed up the dissemination of best practices and allows for distribution of fixed costs of distributions. According to a UNIDO Survey of Indian SSI clusters undertaken in 1996, there are 350 SSI clusters and approximately 2000 rural and artisans based clusters in India. It is estimated that these clusters contribute 60 per cent of the manufacturing exports from India. Panipat, Tripur, Agra and Ludhiana are large clusters of India which produces goods and products mostly to be exported. UNIDO is implementing a project in India with the aim of developing capabilities at both the local and the national levels so to promote SSI networking and cluster development. This is done by (i) assessing the competitiveness and organization of SSI cluster, (ii) assisting the clusters across in developing a common vision of what their cluster can achieve in national as well as international markets, (iii) building up the capacity of cluster sectors to implementing

such a vision, (iv) providing advisory services at the policy level.

Observations :

- The small scale sector has grown steadily and occupied an important place in economy. Contribution of the sector in terms of generation of employment, output and exports are quite significant. The number of registered units in SSI sector according to the 3rd All Idia Census of SSIs , 2001-2002 are 901,000 units and in the SSIs units in registered manufacturing sector are 870 ,000 units . The gross output for SSIs is Rs 1951 billion for registered sector and 1907 billion in manufacturing SSIs . Employment for SSIs for registered amd manufacturing sectors are 51,51,000 and 50,20,000 respectively. Overall, India's economy performed well in the 1980s and even better after the reforms of early 1990s. Structural reforms stimulated industrial and services growth and investment in the early 1990s
- Diversification of the rural economy is regarded as an essential component of rural transformation. An expanding non–farm sector contributes to higher rural incomes by providing additional opportunities for employment and income opportunities in rural areas. It also helps in raising income levels of the workers in agriculture sector by reducing population pressure on land.
- The rural workforce in Uttar Pradesh is much less diversified and the process of diversification towards non–agricultural employment has been much slower as compared to others states of the country. The share of non–agricultural workers in the total number of rural workers has increased only moderately during the last two decade.
- Self–employment enterprises constituted 82.3% of the total rural enterprises in Uttar Pradesh and employ 54.34% of the workers. The size of enterprises is rather small only 1.44 persons in case of self–employed units and 5.63 persons in case of establishments.
- Over 90% of the rural enterprises are non–agricultural. These are dominated by 3 sectors only, namely manufacturing and repairs, retailing trade, and community and personal services, which respectively employ 40.97%, 26.91% and 24.94% of the total workers in these enterprises.
- Regional dynamics of growth appears to be different parts of the state. In the relatively prosperous region of western Uttar Pradesh, income levels in non–agricultural activities are higher and in the poorer regions like eastern Uttar Pradesh, the growth of rural non–farm sector reflects distress employment and low income.
- During 2006 to 2007, 6148 IEMs were signed with investment of Rs. 1,57,408 crores and employment or 1467679 working days . Similarly, 360 LOIs were signed with the investment of Rs. 9782 crores and employment or 101152 working days in Uttar Pradesh..
- In the state of Uttar Pradesh, registered SSIs were reported to be 580604units, which provide employment to 2247 thousand persons and produced worth of Rs. 944 crores during 2006–2007. During 1987–88 to 1999–2000, industrial units registered the growth of 632.27 %, employment in these units grew by 342.49% and investment by 293.3%.
- SSIs are mainly concentrated in Agra, Kanpur, Lucknow, Varanasi and Bareilly regions of Uttar Pradesh. The important clusters in Uttar Pradesh are Agra, Kanpur, Ghaziabad–Meerut, Moradabad–Saharanpur, Bhadohi–Mirzapur and Varanasi.
- The state government has announced a new rehabilitation package to turn around sick small scale units with the estimated investment of Rs. 6000 crore. A road map made for their rehabilitation package includes providing relief to these sick industries with regards to recovery of electricity dues and trade tax. The relief measures for sick units would be admissible from date of their declaration as sick also the prescribed period for preparing

their rehabilitation package had also been reduced from 3 months to 1 month. In order to simplify the procedure, a state standing committee meant for determining the sickness of these industries had been done away and its powers and responsibilities had been vested with the state financial committee headed by the Secretary, Small Scale Industry.

- The external factors responsible for industrial sickness include : unexpected adverse marketing conditions for a prolonged period; changes on government policies in respect of excise duty, import/ export restriction and subsidies; disequilibrium between demand and supply; recessionary trend; rise in cost of production; scarcity of critical resources like raw materials, power and skilled labour etc.
- Internal factors responsible for industrial sickness are : management structure and prevailing work culture; economically in viable price structure; level of capacity utilization; technological upgradation; resource mobilization; socio–economic factors related to workers, management and business environment; environmental degradation etc.
- While the causes of sickness may vary from industry to industry and unit to unit in any particular industry. The following factors may attribute to industrial sickness in SSI sector : inadequacy of raw materials/ input; deficiency in management of units; delayed/ inadequate availability of financial assistance, low quality standards adopted by SSI units; delayed payments of receivable from large/ other units; obsolesce of technology; inadequate infrastructure, marketing problems; labour related issues etc.
- The survey findings demonstrate that most of the entrepreneurs use intermediate and traditional technology of production. They also face problems in getting timely supply of raw materials since they do not have institutional arrangements for raw material supply. More than half of the entrepreneurs have received financial assistance; however, there is gap between amount of loan applied and loan received. Again, most of the entrepreneurs do not advertise their product and conduct marketing research. Thus, they face marketing problems.
- The factors affecting business are ranked by the surveyed entrepreneurs in the following manner : (i) adverse market conditions, (ii) erratic supply of power, (iii) labour problem, (iv) management problem, (v) technological upgradation, (vi) government policy in respect of excise duty, (vii) pollution and environmental legislations, (viii) recessionary trend, (ix) rise in cost of production, (x) scarcity raw materials, (xi) global corruption, (xii) delayed/ inadequate availability of raw materials, (xiii) delayed payment and recovery, (xiv) inadequate infrastructure, (xv) disequilibrium between demand and supply, and (xvi) low quality standards.
- The problems being faced in SSI sector are identified as (i) raw materials constraints, (ii) organizational problems, (iii) socio–cultural value system, (iv) environmental pollution and other related problems, (v) technological problems, (vi) manpower development related problems, (vii) quality related problems etc.

Recommendations and Strategies for revival of SSIs in Uttar Pradesh

- Indian manufacturing capabilities should be developed to a level where Indian products are competitive across global markets in terms of price, quality, technology, delivery of services. To achieve this, Indian firms should be enabled to access the latest technology from across the globe, indigenous research and development innovation need to be encouraged and a passion for manufacturing needs to be created while infrastructure, public services and utilities should be improved and made more efficient to assist manufacturing growth. Government, industry, research institutions and academicians should be facilitated and

encouraged to work in collaboration to improve industry capabilities. Moreover, firms should be able to obtain funds easily and cheaply, and be encouraged to invest in developing technology.

- To improve standard of living through manufacturing growth, workers should be enabled to move from lower value added to higher value added jobs. SSIs and cottage industries should be encouraged to grow and become competitive. Moreover, education should focus on fostering a culture that encourage innovation and manufacturing so that people are training for alternate avenues of employment.
- India should be developed into a strong player in global market. To achieve this, trade barriers should be further reduced progressively while FDI should be encouraged actively through creating business climate and attracting NRIs for industrial investment.
- Government must eliminate all reservations in SSI sector, standing with 63 items which constitute over 80 per cent of the total output of SSI sector. State governments and industry bodies have to take a lead to identify SSI clusters, promote cooperation between business and local authorities for cluster development, and formulate policies that attract investment to these clusters.
- 100 per cent FDI should be allowed in all except a few strategic sectors. FDI restrictions in retail need to removed to support by actions in associated areas like granting tax benefits, enabling ease of technology transfer, easing labour regulations, removing SSI restrictions, facilitating easy setting up of business and enabling infrastructure in the country.
- India needs priority in development strategy for development of infrastructure such as power, roads, highways, railways, ports, transportation etc. For this, India needs priority in foreign/ private participation that permits formation of joint ventures for strengthening and growth of network of national and state highways, power generation, communications and economic zones.
- Considering The urgency of taking an early lead in attaining technological competitiveness of SSIs, both in the domestic and industrial markets, it is important to stimulate and usher in a technological revolution among SSIs. Attainment of international competitiveness of SSIs through technological Uttar Pradesh upgradation should be treated as priority and a mission by the state government. The ultimate aim of State Technology Mission should be to enable the SSIs to assimilate new technologies though appropriate utilization and modification and also to strengthen indigenous technological infrastructure including R & D institutions and enterprise linkages, industrial engineering design, consultancy services etc. It can be very useful if it deals with identification of new products and technologies and proper transfer of the same, advice and information of product innovation, design, better management practices, financial resources, marketing research, process automation and last but not the least tying up with MNCs and large Indian companies as ancillaries for outsourcing their requirement from SSIs along with technology packages.
- It is recommended that a State Technology Development Fund for small industries be established in the state to act as the main conduct of transmission mechanism of the Sate Mission on Technology. The fund should be routed through SIDBI because it is the principal financial institution for SSIs. The fund should support SSI units in absorbing technology transfer costs, meeting with initial ground work related expenditure. The fund should initiate efforts at the earliest to set up technology packages, clusters for SSIs in important zones to promote induction of new technologies, incremental innovations and effective transfer.
- The industrial estates can provide the following facilities in addition to developed plots and buildings such as (i) common utilities like power, water, electricity, industrial gas, compressed air etc., (ii) offsite facilities like water tanks, storages, fuel supplies etc., (iii) common effluent treatment and disposal, (iv) communication facilities, (v) secretarial

facilities, (vi) staff housing, (vii) transport facility, (viii) medical facility, (ix) fire protection services etc.

- It is recommended that central facilities should be established for small and tiny sectors for liaison work and market development. These SSIs should also be availed the benefits of product exhibition for export.
- It is also recommended that State Technology Information Bank should be established in the state to make a mission of spreading knowledge about every aspect of technology to all small scale industries situated at every part of the state. It should act as a central Document Centre by sourcing, collecting and disseminating information regarding the availability of technology developed technologies as well as technologies available in the country and abroad.
- Fiscal policies and incentives to SSIs for technical modernization should be given. Exemption from excise duty on goods manufactured by SSIs, tax holiday and tax reduction to SSIs sponsoring research and technological development, zero customs duty for all goods imported to use in R & D projects by SSIs, providing equity capital to SSIs and providing financial support for research and development institutions to transfer technology. Excise duty waiver on indigenous equipment spare parts, consumables and prototypes produced by commercial entities in the small scale sector as against currently limited to non–commercial scientific and industrial research organizational needs. Policy attention, providing financial assistance to such research and development institutions engaged in developing indigenous technology or adaptation of improved technology for commercial application in SSIs on soft terms may also be considered.
- There has to be change in the mind set of individual entrepreneurs to recognize the changing reality and to move as far as possible to change and adopt. This can be catalyzed by efforts by industry associations. The associations and other forms of intermediate local government structure in step with needs of local industry play a pivotal role in aiding government to develop a cluster approach. It is necessary that the industry associations help in establishing both backward and forward linkages for sustenance and development of small industries.
- According to the recommendations from the various circulars and committee reports of RBI from time to time to minimize the financial problem, authorities can minimize the time taken for loan sanctioning and ensure the collateral free loans at the time of requirement.
- For improving productivity, imparting knowledge for the employees in SSIs is also suggested. Further, artisans are to be trained to develop their skills and also equip themselves to design according to the tastes and preferences of consumers in different markets such as rural and urban, national and international.
- To motivate the first generation entrepreneurs and to encourage industrialization, management institutions and government must extend help in marketing the products.
- The following promotional measures are suggested for SSI sector (i) ban on entry of medium and large units into the manufacture of such products which are served for small scale sector, (ii) excise duty and sales tax exemptions/ concession; (iii) government and PSU should make their purchase for SSI sector, (iv) adequate infrastructure facilities like land and building, technical consultancy and finance, (v) small units can adopt a group approach to ensure efficient management with a view to reduce the cost of production.

Strategies For Revival of SSIs in U.P.

1. To make U.P. attractive to industrialists for investment.
2. To encourage private and govt. participation in industrial and social development.
3. To create industrial friendly atmosphere for industry.

4. Developing necessary infrastructure.

   - To provide for technical up gradation. Design and marketing assistance.
   - Integrated development of the whole cluster in ease of cluster based industries.
   - Rehabilitation of sick small scale industries.
   - Establishment of design, marketing and technical institutions for encouragement of small industries and handicraft development.

5. New small scale and tiny units in 29 districts of eastern region and 7 districts of Bundelkhand should be given capital subsidy equal to 10% of this investment subject to a maximum of Rs. 5 lacs. A capital subsidy fund of Rs. 250 lacs should be created for this purpose.
6. New small scale and tiny have to be given interest subsidy of 5 % (subject to a maximum of Rs. 2.5 lacs annually) for 5 years on loan from banks/financial institutions.
7. Facilities must be given under the scheme of U.P. small Industries Technical Up gradation Scheme.
8. Creation of an industrial estate infrastructure Development fund which should be the disposal of a committee comprise of entrepreneurs.
9. Purchase of technology and provision of common facility centers must be managed through ASIDE scheme.
10. District level Shram Bandhu should be set up under the Chairmanship of D.M. having members of industries associations and DIC. Complaints will be heard and resolved by Shram Bandhu.
11. Publicity of Uttar Pradesh should be made through an interactive website by the greater use of information technology.
12. Monthly teleconferencing/video conferencing must be organized enabling entrepreneurs through out the state to interact with senior officers and professionals.
13. Small scale and tiny units should be exempted from land use change charge for change of agriculture land to industrial purpose.
14. Stamp duty must be admissible to Industrial Estates of UPSIDC as applicable to the plots of Industrial Estates of Directorate of Industries.
15. While fixing the circle rates, circle rates for the Industrial purposes should be declared separately.
16. The help must be provided in line with the policy to ensure cluster based industrial development.
17. A system of providing testing and certification facilities to small scale and tiny units, specially those which want to contribute in the filed of exports, should be established by the State Government.
18. To sustain and strengthen the traditional knowledge, skills and capabilities of weavers , to revitalize the institutional structure to enrich human resource skills and capabilities;
19. To modernize the sector and upgrade the technology.
20. To fulfill the requirement of cloth for both domestic and export markets;
21. To provide job opportunities to the poor of our society belonging mainly to the minorities and scheduled castes.
22. The tenth five year plan has proposed a focus on cluster development of industries as a structural change. Support through schemes by government of India must be an essential component in this development.

23. The strategy of strengthening of the handloom sector only through co-operatives, which forms only 20 percent of weavers, was followed during the Ninth Five year Plan. Henceforth private sector and non-co-operative weavers/handlooms should be primarily promoted.
24. There is almost a total vacuum in the field of reliable data in the handloom sector making it imperative to establish an effective MIS for the sector. Giving priority this work a detailed database have to be collected containing following information:-
    a) Weavers and weaver families;
    b) Handloom clusters;
    c) Product varieties and regional traditions;
    d) Details of supplier of raw-materials;
    e) Designs, patterns and other intellectual properties;
    f) List of exporters;
    g) List of buyers; and
    h) Information about marketing events.
25. The rates of trade tax on raw material for handloom industry must be rationalized after studying rates prevailing in other states.
26. Dyes and chemicals are supplied through National Handloom Development Corporation. AZO free dyes and eco-friendly colors and chemicals should be encouraged through direct purchase.
27. Uttar Pradesh Handloom Corporation has to be revitalized by capital infusion reduction in manpower and renovation of showrooms under Deen Dayal Handloom Promotion Scheme.
28. Areas/district should be identified for herbal plants, pottery, leather; food processing and handicraft units and they will be provided integrated facilities of product development, new designs, marketing, raw material and technology.
29. It has to be ensured that the products of those units are compulsorily included in national and international exhibitions, fairs organized at block or district level.
30. An Export Processing Loan Fund has to be created to export products of hand made paper industry. Marketing of khadi & village industry products for foreign tourists, specially on Buddhist Tourism Circuit.
31. Special facility must be provided for establishment of khadi & village industry units for SC, ST, BC, women and ex-servicemen be encouraged.
32. Loan should be provided to khadi & village industries in rural areas, specially in the programmes of development of new infrastructure facilities, from the banks without any security/ collateral security as recommended by RBI in its circular issued in January 2009.
33. A close supervision and follow up is necessary to take corrective steps at the appropriate time . Following suggestions can be considered for avoiding or tackling the problems of SMEs,

- Proper appraisal of the Project .
- Implementation of the Project according to the time schedule .
- Disbursements of funds according to the requirement of the project .
- Modernization / Expansion / Diversification of the project .
- Detection of sickness and taking corrective steps at the Incipient stage .

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