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SMALL AND MEDIUM ENTERPRISE (SME) IN BIHAR: CHALLENGES AND OPPORTUNITIES

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ABSTRACT

The Small and Medium Enterprise (SME) play a vital role in the industrial development of any country. The importance of SME sector is well-recognized world over from its significant contribution in gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both the sectors, and particularly for small-scale industries from the period from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units, though this list of products is decreasing due to changes in industrial policies and climate. This Paper is an attempt to study the challenges and opportunities of SME.

***Key Words:** Globalisation, Industrial Development, SME.*

INTRODUCTION

The SME sector play a vital role in the growth of the country. It contributes almost 40 percent of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. This sector has provided employment to around 26 million people and is involved with the production of over 7500 industrial items with the products range varying from very simple items produced with traditional technology to high tech products. At present, the SSI sector accounts for over 90 percent of industrial units in the country and approximately 35 percent of India's exports. Due to its nature of less capital intensive and

high labour absorption, SME sector has made significant contribution to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths and of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. SMEs always represented the model of socio-economic policies of Government of India, which emphasized judicious use of foreign exchange for import of capital goods and inputs, labour intensive production, employment generation, non concentration of economic power in the hands of few, discouraging monopolistic practices of production and marketing and probably the most important one, that is fulfilling the dream of 'Inclusive Growth'. It was also coupled with the policy of de-concentration of industrial activities in few geographical areas.

The MSME by their very nature are also exposed to a variety of Risks which they must manage. As per the Economist Intelligence Unit Survey 2009, about 36 percent of the time of the top management was spent on Risk and Capital management. Further the survey pointed out the bulk of this effort went into Strategy Development, Pricing. New Product development and allocation of capital to business lines. Risk is inherent for MSMEs and risk management must be identified as a core competency. The goal should be to understand, measure and monitor the various risks that arise. Risk here means the expected potential loss in future. The best method to manage risk is to align the risk management practices with corporate strategy by using both real and financial methods. For the MSME one challenge is to minimize the borrowing costs and thus some exposure is left unhedged.

The MSMEs are exposed to the following risks:

1. Credit Risk
2. Market Risk
3. Operational Risk
4. Product Risk
5. Macro Economic Risk
6. Technology Risk
7. Reputation Risk
8. Legal Risk²

INDUSTRIAL SCENARIO IN BIHAR

The process of economic development involves a steady decline in the share of primary sectors in Gross Domestic Products and a corresponding increase in the shares of secondary (industrial) and tertiary (services)

sectors. Although the size of industrial sector in Bihar is relatively small, this structural change of the economy is observed in Bihar also. This is because while the overall growth rate of the state's economy has been 10.52 percent during the past decade, its industrial sector has growth at a higher rate of 13.07 percent during the same period.

In 2014-15, the industrial sector in Bihar has grown by 9.10 percent, which was marginally lower than the growth rate of GSDP at 9.45 percent³ (Table 3.1). The slower growth of industrial sector in 2014-15 is due to the slower growth of manufacturing sector which grew at a little over 5 percent. This is basically a reflection of the slower growth of manufacturing sector in the entire national economy. A deceleration in growth rate was also observed for construction and electricity/water supply/gas; but even after that, construction sector grew by 10.45 percent and the latter grew by 7.52 percent. With a considerable improvement in availability of power in Bihar, it is expected that its industrial sector will grow at higher rate in the coming years.

THE CHALLENGES

We have discussed so far the distinguished peculiarities of micro and small enterprises in the context of Bihar. We have found that the organisational pattern of these industries place them at a distinct disadvantage compared to large scale enterprises. It is due to this peculiarity of micro and small enterprises. This disadvantage has given rise to various problems with which the micro and small enterprises have been contending with. The major problems micro and small enterprises face are but not confined to the following only:

- **Problems of Raw Material:** A major problem that the micro and small enterprises have to contend with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) poor quality of raw material, and (iii) a high cost. Earlier, the majority of micro and small enterprises mostly produced items dependent on local raw material. Then, there was no severe problem in obtaining the required raw materials. But, over time since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem with more severity mainly due to difficulty in obtaining this raw material either on account of the foreign exchange crisis or some of other reasons.

- **Problem of Finance:** An important problem faced by micro and small enterprises in the country is that of finance. The problem of finance in micro and small sector is mainly due to two reasons. Firstly, it is partly due to scarcity of capital in the country as a whole. Secondly, it is partly due to weak credit worthiness of micro and

small enterprises in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and are, thus exploitative in character. It is a happy augury that ever since the nationalisation of banks in 1969, the credit situation has improved still further. The position changes in attitude to banks would be clear from the fact that whereas the amount of credit outstanding of public sector banks) to small-scale industries stood an only Rs 251 crores in June 1969, it rose to a staggering figure of Rs 15,105 crore in March 1990. For this, it is necessary to further liberalise the rules and practice banking in the country.

- **Problem of Marketing:** One of the main problems faced by the micro and small enterprises is in the field of marketing. These units often do not possess any marketing organisation. In consequence, their products compare unfavourable with the quality of the products of the large scale industrials. Therefore, they suffer from competitive disadvantage vis-a-vis large scale units.

In order to protect micro and small enterprises from this competitive disadvantage, the Government of India has reserved certain items for the small scale sector. The list of reserved items has continuously expanded over the period and at present stands at 20 items. Besides, the Trade Fair Authority of India and the State Trading Corporation (STC) help the small scale industries in organising their sales. The National Small Industries Corporation (NSIC) set up in 1955 also helping the small units in obtaining the government orders and locating export markets.

Ancillary units face the problems of their own types like delayed payment by parent units, inadequacy of technological support extended by parent units, non adherence to quality and delivery schedules, thus, disturbing the programme of the parent units and absence of a well-defined pricing system and regulatory laws.

- **Problem of Under-Utilization of Capacity:** There are studies that clearly bring out the gross under-utilization of installed capacities in micro and small enterprises. According to Arun Ghosh 1988, 315-316 on the basis of All India Census of Small-Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrician equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products.¹⁴ On an average, we can safely say that 50 to 40 percent of capacity were not utilized in micro and small enterprises.

The Industries of Darbhanga Division faces the problems related to:

1. Raw Materials: Darbhanga is the flood affected zone of North-Bihar. It has capacity to produce adequate quantity of raw materials for existing industries in the region. But, due to Drought and flood it become impossible. Some raw materials are brought from the other parts of the country and abroad. Lack of proper finance and inadequate rule saw regulations are hurdles. So, industries of Darbhanga division faces serve problem of raw materials.

III. Capital: Every industry is dependent upon the fixed and working capital. Without capital, industries cannot exists. Industries of Darbhanga division are suffering from the problem of fixed and working capital. In the financial institution, bribery and illegal gratification are on top. Thus, financial assistance to industries are not being served on time, this create financial inadequacy to industries of Darbhanga division.

III. Skilled Labour: There are inadequate skilled labour employed in the industries of Darbhanga division. Skilled labour of the region migrate to other region of the country and Gulf countries for hand some income. Thus, industries of this region are suffering with the inadequacy of skilled labour.¹⁶

IV. Power : Bihar has low capacity power generation plant. So, proper and adequate power facilities are not available throughout the state. In this way industries of the Darbhanga region are suffering with the problems of inadequate power.

V. Space:- Due to identify of flood effected zone this region has not proper and adequate space for establishing industries.

VI. Transportation and Infrastructure:- There is inadequate tranport and infrastructure facilities in the Darbhanga district. In this region there is lack of rail-road co-ordination. Lack of proper marketing facilities and inadequate vehicle facility compel industries to become sick. Thus for the proper development of industries in Darbhanga division proper and smooth transport and infrastructural facilities is needed.

The problem of industrial sickness in small units has to be treated differently from the problem of sickness of the large units. It is basically the problem of increasing the competitive strength and viability of the small units.

THE OPPORTUNITIES

Agro based Industries

The bio-diversity in Bihar is very wide and the farms here produce a variety of crops, besides food grains. These crops include oilseeds, fibres, fruits, vegetables, sugarcane and tea. In addition, the production of milk is also very substantial in Bihar.¹⁷ Thus Bihar offers enormous opportunities for establishment of agro-based industries.

Food Processing Industries

The status of food processing industries in Bihar is presented in Table 3.10. At the end of 2014-15, there were 366 food processing industries in the state out, of which 207 (56.6 percent) were operation. By September, 2015, there were a few addition, resulting 379 units, of which 210 (55.4 percent) were operation. Although cereal-based food processing industries are the largest in number (rice, wheat and maize), there are also a number of units producing milk products and edible oils. The total employment in these food processing industries is around 45 thousand.

The Directorate of Food Processing is currently providing special assistance to the sector under the following schemes:

- **Integrated Development Project:** Under this project, the ongoing subsidy for cluster scheme is payable at 40 percent and, for individual units, it is 35 percent. The project provides the following facilities.
 - (a) For the capacity expansion under the cluster scheme, the maximum subsidy among payable is Rs. 10.00 crore and, for individual units, it is Rs. 5.00 crore.
 - (b) For the scheduled castes/ scheduled tribes/women/ handicapped entrepreneurs, an additional 5 percent subsidy is payable.
 - (c) For the projects costing of Rs. 50-100 crore, an interest subsidy of 3 percent and on the projects costing above Rs. 100 crore an interest subsidy of 6 percent is also payable.
- **Food Park Scheme:** Under this scheme, the rate of payable subsidy has been raised to 30 percent with a maximum of Rs. 50 crore. The establishment of a Food Park at Buxar has been approved. In 2013-14, a sum of Rs. 30 crore was approved for subsidy payment.
- **Modernisation Scheme for Established Rice Mills:** Under National Food Processing Mission of the central government, the traditional rice milling units are paid 25 percent subsidy for modernization. Under

this scheme, an additional state subsidy of 15 percent is payable in accordance with the guidelines of the central government.

- **Cold Storage Scheme:** The cold storage with a capacity of 5-10 thousand tonnes is paid a subsidy of 30 percent on the capital expenditure. For a capacity of more than 10 thousand tonnes, 35 percent subsidy will be payable. The maximum amount of subsidy will be Rs 5 crore.
- **Establishment of Silo for Maize Storage:** Under this scheme, the benefit of subsidy will be given for establishment of silos for the storage of maize. The construction of silo with a storage target of 5 thousand tonnes of maize will be considered as one unit and a subsidy of 35 percent will be payable on this.

Sugar Industries

The area under sugarcane cultivation in Bihar is about 3 lakh hectares which is about 6 percent of the total cultivable area. In view of its widespread cultivation, the state government has decided promote the sugar industry in the state to strengthen the rural economy. Apart from providing direct employment, the sugar industry also creates indirect employment through its related activities. For the benefit of sugar mills, various concessions have been provided by the state government, which include reduction in VAT on ethanol and denatured spirit (from 12.5 to 4.0 percent) and abolition of literage fees on ethanol and liquor.

Out of 28 old sugar mills in the state, 19 are closed and only 9 are working, all in the private sector. There are two new sugar mills under Bihar State Sugar Corporation, which were handed over to a HPCL in 2011 on lease. During 2014-15, a total of 574.45 lakh qntls. of sugarcane was crushed in Bihar, providing 52.67 lakh qntls. of sugar. The production of sugar was about 11 percent less than the level in 2013-14. The overall recovery percentage of sugar has increased marginally in Bihar from 8.6 percent (2012-13) to 9.2 percent (2014-15).

Dairy Industry

The animal husbandry is a traditional occupation for rural households, because of its close linkage with farming operations. At one hand it provides animal power for agricultural operations and, on the other, it produces mil,. Apart from meeting the in-house demand for milk, the farmers also sell milk to supplement their agricultural income. But, at present, the dairy is viewed as an industry. The Bihar State Milk Cooperative Federation (COMFED), established in 1983, has played a pivotal role in the development of dairy industry in the state.

Non-Agro-Based Industry

Handloom

Bihar has good potential for handloom and handicraft items. The sector is able to create employment, income and consequently enhancement of living standard of poor people of this region. The Government has taken several steps to boost this sector by way of concessions and incentives. There is need to unleash the potentialities.

Powerloom

There are 14,000 power looms in the state, concentrated mainly in Bhagalpur, gAya and Banka district and their main products are staple chadar, furnishing clothes, etc. There is a training centre at Nathnagar (Bhagalpur), run by the Ministry of Textiles of the central government, where 120 power loom weavers are trained each year. For power loom workers electricity subsidy of Rs 3/- per units is being provided for production of cloth.

Leather Industries

Accounting for around 8 percent of the country's total population, Bihar has substantial potential for leather industries. Again, the goat population, in Bihar accounts for nearly 12.1 percent of the country's total goat population, ranked third in the country, next only to West Bengal and Rajasthan. Buffalo and sheep account for 4.2 and 1.9 percent, respectively, of the country's total population of those animals. According to a recent survey conducted by Central Leather Research Institute (CLRI), Chennai, Bihar annually produces 2.64 million bovine hides and 5.09 million bovine skins. The state is known for best quality goat skins, cow hides and buffalos calf skins. Goat skins are smaller in size and the best material for the production of glazed kid leather products, which are mostly exported.

For hides and skins, there are seven main markets in the state- Patna, Ara, Aurangabad, Mungar, Muzaffarpur, Katihar (Pabai) and Prunea. In case of buffalo hides, Ara is the biggest market, whereas Muzaffarpur is the major market for buffalow calf skin. Patna is the major market for goat skin. According to a rough estimate, three trucks loaded daily with 7-8 thousand pieces of goat skins and 2-3 thousand pieces of cow hides are transported from Muzaffarpur to other destinations. Some of the important companies like Tamilnadu Tanners collected hides and skins from the important markets in Bihar through their own agents. The local

tanning industries are confined to a few working tanneries in Muzaffarpur and Bata Tannery at Mokama Ghat. As a result, most raw material find their ways to Kolkata, Kanpur and Chennai, depriving Bihar of the benefits.

Khadi and Village Industries

The Khadi and Village Industries Commission (KVIC) is a statutory organisation under the Ministry of MSME as the single national nodal agency for the sector. AT the state level, the KVIC functions through State KVIC Directorates and State (KVI Boards. Its activities include skill development, transfer of technology, research and development, marketing, etc, and it helps in generating employment opportunities in the rural areas. In case of village industries, KVIC is implementing the Prime Minister's Employment Generation Programme (PMEGP). As a nodal agency, KVIC also implements cluster development activities for traditional products of khadi and village industries, under the Scheme of Fund for Regeneration of Traditional Industries (SFRTI).

In order to strengthen the scope for micro enterprise development and the country, the Government of India has, along with the other assistance programmes, announced its reservation policy for small sector mainly consisting of micro enterprises in the country. The reservation policy was initiated in 1967 when only 47 items were reserved for exclusive manufacture in the small scale sector. By 1983, the reserve list included 836 items for exclusive production in the small scale sector. Later, the Abid Hussain Committee dereserved 12 items and, thus, there are still 20 items reserved for exclusive production in small sector. The main objective of the reservation policy has been to insulate the small sector, or say, micro and small enterprises from unequal competition of large scale industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms.

The various business opportunities, for example, available in the environment include but are not confined to the following only:

- Tourism
- Automobile
- Textiles
- Social Ventures
- Software
- Engineering goods
- Franchising

- Healthcare sector
- Biotechnology
- Education and Training
- Food Processing
- Ayurveda and Traditional Medicines
- Media
- Packaging
- Floriculture
- Toys Making
- Recycling Business etc

CONCLUSION

Small scale industries is based on the logic that small industries pave avenues for the development and smooth functioning of the big industries. Besides, it involves the minimum possible risks and capital. Albeit with the low level of entrepreneurial excellence, it becomes possible to manage the small industries efficiently. In addition, it provides the maximum possible employment. And so, specially in the developing economies where we find large scale unemployment, it is proper that small industries are given due weightage. Industrialization is the only answer to this present state of disrupted economy.

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