UNIT-IV

ROLE OF INDUSTRIALISATION IN INDIA

Industrialisation is the process of manufacturing consumer goods and capital goods and of building infrastructure in order to provide goods and services to both individuals and businesses. As such Industrialisation plays a major role in the economic development of underdeveloped countries like India with vast manpower and varied resources. Let us discuss, in detail, the role of industrialization in the Indian economy.

1. Raising Income: The first important role is that industrial development provide a secure basis for a rapid growth of income. The empirical evidence suggests a close correspondence between the high level of income and industrial development. In the industrially developed countries, for example, the GNP per capita income is very high at around $ 28,000. Whereas for the industrially backward countries it is very low at around $ 400 only.

2. Changing the Structure of the Economy: In order to develop the economy underdeveloped countries need structural change through industrialization. History shows that in the process of becoming developed economy the share of the industrial sector should rise and that of the agricultural sector decline. This is only possible through deliberate industrialization. As a result, the benefits of industrialization will 'trickle down' to the other sectors of the economy in the form of the development of agricultural and service sectors leading to the rise in employment, output and income.

3. Meeting High-Income Demands: Beyond certain limits, the demands of the people are usually for industrial products alone. After having met the needs of food, income of the people are spent mostly on manufactured goods. This means the income-elasticity of demand for the manufactured goods is high and that of agricultural products is low. To meet these demands and increase the economy's output underdeveloped countries need industrialization.

4. Overcoming Deterioration in the Terms of Trade: Underdeveloped countries like India need industrialization to free themselves from the adverse effects of fluctuations in the prices of primary products and deterioration in their terms of trade. Such countries mainly export primary products and import manufactured goods. The prices of primary products have been falling or are stable whereas the prices of manufactured products have been rising. This led to deterioration in the terms of trade of the LDCs. For economic development such countries must shake off their dependence on primary products. They should adopt import substituting and export oriented industrialization.

5. Absorbing Surplus Labour (Employment Generation): Underdeveloped countries like India are characterized by surplus labour and rapidly growing population. To absorb all the surplus labour it is essential to industrialise the country rapidly. It is the establishment of industries alone that can generate employment opportunities on an accelerated rate.

6. Bringing Technological Progress: Research and Development is associated with the process of industrialization. The development of industries producing capital goods i.e., machines, equipment etc., enables a country to produce a variety of goods in large quantities and at low costs, make for technological progress and change in the outlook of the people. This results in bringing about an industrial civilization or environment for rapid progress which is necessary for any healthy economy.

7. Strengthening the Economy: Industrialisation of the country can provide the necessary elements for strengthening the economy. In this regard the following points may be noted.

(a) Industrialisation makes possible the production of goods like railways, dams, etc. which cannot be imported. These economic infrastructures are essential for the future growth of the economy.

(b) It is through the establishment of industries that one can impart elasticity to the system and overcome the historically given position of a primary producing country. Thus, with industrialization we can change the comparative advantage" of the country to suit its resources and potentialities of manpower.

(c) Through industrialization the requirements for the development of agriculture can be met. For example, improved farm-implements, chemical fertilizers, storage and transport facilities, etc., appropriate to our own conditions can be adequately provided only by our own industries.

(d) The industrial development imparts to an economy dynamic element in the form of rapid growth and a diversified economic structure which make it a progressive economy.

(e) Providing for Security: Industrialisation is needed to provide for the country's security. This consideration becomes all the more critical when some international crisis develops. In such situation, dependence of foreign sources for defence materials is a risky affair. It is only through industrial development in a big way that the national objective of self-reliance in defence materials can be achieved.

PUBLIC SECTOR IN INDIA

At the time of independence, India was backward and underdeveloped – basically an agrarian economy with weak industrial base, high rate of unemployment, low level of savings and investment and near absence of infrastructural facilities. Indian economy needed a big push. This push could not come from the private sector because of the lack of funds and their inability to take risk with large long-gestation investments. As such, government intervention through public sector was necessary for self-reliant economic growth, to diversify the economy and to overcome economic and social backwardness.

OBJECTIVES: The public sector aims at achieving the following objectives:

i. To promote rapid economic development through creation and expansion of infrastructure
ii. To generate financial resources for development
iii. To promote redistribution of income and wealth
iv. To create employment opportunities
v. To promote balanced regional growth
vi. To encourage the development of small-scale and ancillary industries, and
vii. To promote exports on the one side and import substitution, on the other.

Role of Public Sector: The public sector has been playing a vital role in the economic development of the country. Public sector is considered a powerful engine of economic development and an important instrument of self-reliance. The main contributions of public enterprises to the country's economy may be described as follows:

1. Filling the Gaps in Capital Goods: At the time of independence, there existed serious gaps in the industrial structure of the country, particularly in the fields of heavy industries such as steel, heavy machine tools, exploration and refining of oil, heavy Electrical and equipment, chemicals and fertilizers, defense equipment, etc. Public sector has helped to fill up these gaps. The basic infrastructure required for rapid industrialisation has been built up, through the production of strategic capital goods. In this way the public sector has considerably widened the industrial base of the country.

2. Employment: Public sector has created millions of jobs to tackle the unemployment problem in the country. Public sector accounts for about two-thirds of the total employment in the organised industrial sector in India. By taking over many sick units, the public sector has protected the employment of millions. Public sector has also contributed a lot towards the improvement of working and living conditions of workers by serving as a model employer.

3. Balanced Regional Development: Public sector undertakings have located their plants in backward and untrodden parts of the county. These areas lacked basic industrial and civic facilities like electricity, water supply, township and manpower. Public enterprises have developed these facilities thereby bringing about complete transformation in the socio-economic life of the people in these regions. Steel plants of Bhilai, Rourkela and Durgapur; fertilizer factory at Sindri, are few examples of the development of backward regions by the public sector.

4. Contribution to Public Exchequer: Apart from generation of internal resources and payment of dividend, public enterprises have been making substantial contribution to the Government exchequer through payment of corporate taxes, excise duty, custom duty etc. In this way they help in mobilizing funds for financing the needs for the planned development of the country. In recent years, the total contribution from the public enterprises has increased considerably, between the periods 2002-03 to 2004-05 the contribution increased by Rs 81,438 crores on the average.

5. Export Promotion and Foreign Exchange Earnings: Some public enterprises have done much to promote India’s export. The State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), Hindustan Steel Ltd., the Bharat Electronics Ltd., the Hindustan Machine Tools, etc., have done very well in export promotion. The foreign exchange earnings of the public sector enterprises have been rising from Rs 35 crores in 1965-66 to Rs 42,264 crores in 2004-05.

6. Import Substitution: Some public sector enterprises were started specifically to produce goods which were formerly imported and thus to save foreign exchange. The Hindustan Antibiotics Ltd., the Indian Drugs and Pharmaceuticals Ltd. (IDPL), the Oil and Natural Gas Commission (ONGC), the Indian Oil Corporation Ltd., the Bharat Electronics Ltd., etc., have saved foreign exchange by way of import substitution.

7. Research and Development: As most of the public enterprises are engaged in high technology and heavy industries, they have undertaken research and development programmes in a big way. Public sector has laid strong and wide base for self-reliance in the field of technical know-how, maintenance and repair of sophisticated industrial plants, machinery and equipment in the country. Through the development of technological skill, public enterprises have reduced dependence on foreign knowhow. With the help of the technological capability, public sector undertakings have successfully competed in the international market.

In addition to the above, the public sector has played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control over the national economy, creating a socialistic pattern of society, etc. With all its linkages the public sector has made solid contributions to national self-reliance.

Limitations: Despite their impressive role, Public enterprises in India suffer from several problems and shortcomings. Some of these are described below:

1. Poor Project Planning: Investment decisions in many public enterprises are not based upon proper evaluation of demand and supply, cost benefit analysis and technical feasibility. Lack of a precise criterion and flaws in planning have caused undue delays and inflated costs in the commissioning of projects. Many projects in the public sector have not been finished according to the time schedule.

2. Over-capitalization: Due to inefficient financial planning, lack of effective financial control and easy availability of money from the government, several public enterprises suffer from over-capitalization The Administrative Reforms Commission found that Hindustan Aeronautics, Heavy Engineering Corporation and Indian Drugs and Pharmaceuticals Ltd were over-capitalized. Such over-capitalization resulted in high capital-output ratio and wastage of scare capital resources.

3. Excessive Overheads: Public enterprises incur heavy expenditure on social overheads like townships, schools, hospitals, etc. In many cases such establishment expenditure amounted to 10 percent of the total project cost. Recurring expenditure is required for the maintenance of such overhead and welfare facilities. Hindustan Steel alone incurred an outlay of Rs. 78.2 crore on townships. Such amenities may be desirable but the expenditure on them should not be unreasonably high.

4. Overstaffing: Manpower planning is not effective due to which several public enterprises like Bhilai Steel have excess manpower. Recruitment is not based on sound labour projections. On the other hand, posts of Chief Executives remain unfilled for years despite the availability of required personnel.

5. Under-utilisation of Capacity: One serious problem of the public sector has been low utilisation of installed capacity. In the absence of definite targets of production, effective production planning and control and proper assessment of future needs many undertakings have failed to make full use of their fixed assets. There is considerable idle capacity. In some cases productivity is low on account of poor materials management or ineffective inventory control.

6. Lack of a Proper Price Policy: There is no clear-cut price policy for public enterprises and the Government has not laid down guidelines for the rate of return to be earned by different undertakings. Public enterprises are expected to achieve various socio-economic objectives and in the absence of a clear directive, pricing decisions are not always based on rational analysis. In addition to dogmatic price policy, there is lack of cost-consciousness, quality consciousness, and effective control on waste and efficiency.

7. Inefficient Management : The management of public enterprises in our country leaves much to be desired. Managerial efficiency and effectiveness have been low due to inept management, uninspiring leadership, too much centralisation, frequent transfers and lack of personal stake. Civil servants who are deputed to manage the enterprises often lack proper training and use bureaucratic practices. Political interference in day-to-day affairs, rigid bureaucratic control and ineffective delegation of authority hamper initiative, flexibility and quick decisions. Motivations and morale of both executives and workers are low due to the lack of appropriate incentives.

CAUSES FOR THE EXPANSION OF PUBLIC ENTERPRISE

At the time of independence, India was backward and underdeveloped – basically an agrarian economy with weak industrial base, high rate of unemployment, low level of savings and investment and near absence of infrastructural facilities. Indian economy needed a big push. This push could not come from the private sector because of the lack of funds and their inability to take risk with large long-gestation investments. As such, government intervention through public sector was necessary for self-reliant economic growth, to diversify the economy and to overcome economic and social backwardness.

Let us discuss the rationale or causes for the expansion of public sector enterprises in India.

1. Rate of Economic Development and Public Enterprises: The justification for public enterprises in India was based on the fact that the targeted rate of economic growth planned by the government was much higher than could be achieved by the private sector alone. In other words, the public sector was essential to realize the target of high growth rate deliberately fixed by the government.

2. Pattern of Resource Allocation and Public Enterprises: Another reason for the expansion of the public sector lies in the pattern of resources allocation decided upon under the plans. In the Second Plan the emphasis was shifted to industries and mining, mainly basic capital goods industries to be developed under the aegis of the public sector. Thus more resources for industrialization were funneled through the public sector.

3. Removal of Regional Disparities through Public Enterprises: Another important reason for the expansion of the public sector was the need for balanced development in different parts of the country and to see that there were no serious regional disparities. Public enterprises were set up in those regions which were underdeveloped and where local resources were not adequate. Good examples are the setting up of the three steel plants of Bhillai, Rourkela and Durgapur and the Neyveli Project in Madras which were meant to help industrialise the regions surrounding the projects.

4. Sources of Funds for Economic Development: Initially, state was an important source of funds for development. The surplus of government enterprises could be re-invested in the same industries or used for the establishment and expansion of other industries. Profits of public sector industries can be directly used for capital formation which is necessary for the rapid development of the country.

5. Socialistic Pattern of Society: The socialistic pattern of society envisaged in the Constitution calls for expansion of public sector. For one thing, production will have to be centrally planned as regards the type of goods to be produced, the volume of output and the timing of their production. Besides, one of the objectives of the directive principles of the Indian Constitution is to bring about reduction of the inequalities of income and wealth and to establish an egalitarian society. The Five Year Plans have taken this up as a major objective of planning. The public enterprises were used as major instruments for the reduction of inequalities of income and to bring about a more equitable distribution of income in several ways.

6. Limitations and Abuses of the Private Sector: The behavior and attitude of the private sector itself was an important factor responsible for the expansion of the public sector in the country. In many cases the private sector could not take initiatives because of the lack of funds and their inability to take risk with large long-gestation investments. In a number of cases, the government was forced to take over a private sector industry or industrial units either in the interest of workers or to prevent excessive exploitation of consumers. Very often the private sector did not function as it should and did not carry out its social responsibilities. Accordingly, the government was forced to take over or nationalize the private sector units.

To sum up, the expansion of the public sector was aimed at the fulfillment of our national goals, viz., the removal of poverty, the attainment of self-reliance, reduction in inequalities of income, expansion of employment opportunities, removal of regional imbalances, acceleration of the pace of agricultural and industrial development, to reduce concentration of ownership and prevent growth of monopolistic tendencies by acting as effective countervailing power to the private sector, to make the country self-reliant in modern technology and create professional, technological and managerial cadres so as to ultimately rid the country from dependence on foreign aid.

ROLE OF SMALL AND COTTAGE INDUSTRIES

All industrial units with a capital investment of not more than Rs. one crore are, at present, treated as small-scale units. For ancillary units i.e., those supplying components etc., to large-scale industries and the export-oriented units, the limit of capital investment is also Rs. one crore. Industrial units with an investment of up to Rs. 25 lakhs belong to the tiny sector. It may be noted that capital investment covers only investment in plant and machinery, land and factory buildings are excluded. As per this classification all industries with capital investment higher than specified for small-scale units are large-scale industries.

The small-scale industries contribute a lot to the progress of the Indian economy. They have also a great potential for the future development of the economy. Let us discuss their role in detail.

Large Scope for Employment: The small-scale industries provide large scope for employment on a massive scale. In 2001 the employment generated in this sector was 19.2 million. This is of great significance for a country like India which is a labour-surplus economy, and where labour-force is increasing at a very rapid rate. Moreover, the small-scale industries being labour-intensive they employ more labour per unit of capital for a given output compared to the large-scale industries. This is evident from the fact that the small-scale sector accounts for as much as 80% of the total employment in the industrial sector.

The small-scale industries are also specially suited for overcoming various types of unemployment in the rural and semi-urban areas. With little capital and other resources, mostly available locally, these industries can be set-up everywhere in the country, even at the very door-step of the workers. For this reason the small farmer and agricultural worker can combine their work in agriculture with that in these industries. Further, these industries provide part-time as well as full time work to rural artisans, women, and poor of the backward classes.

Large Production: The small-scale industries also contribute a sizeable amount to the industrial output of the country. Out of the total output of the manufacturing sector, as much as 40% comes from these industries. And out of the total supplies of industrial consumer goods a major part originates in the small-scale sector. Almost all the products of this sector are in the nature of consumer goods, with a significant part consisting of luxury goods. The adequate availability of consumer goods plays an important role in stabilizing and developing the economy.

Large Exports: Many products of the small-scale industries like handloom cotton fabrics, silk fabrics, handicrafts, carpets, jewellery, etc. are exported to foreign countries. Their share in the total exports is as much as 40%. In this way the small-scale sector makes a very valuable contribution to the accumulation of foreign exchange resource of the country.

Use of Latent (domestic) resources: The small-scale industries used resources which are available locally which would otherwise have remained unused. These resources are, the hoarded wealth, family-labour, artisan's skills, native entrepreneurship, etc. Being thinly spread throughout the country, these resources cannot be used by large-scale industries which need them in big amounts and at a few specified places.

Besides using these resources, the small-scale industries provide an environment for the development of forces of economic growth. Using the hoarded wealth, these industries put into circulation savings which propel investments in the economy. These industries also provide opportunities to the small entrepreneurs to learn, to take risks, to experiment, to innovate and to compete with others.

Promoting Welfare: The small-scale industries are also very important for welfare reasons. People of small means can organize these industries. This in turn increases their income-levels and quality of life. As such these industries help in reducing poverty in the country. Further, these industries tend to promote equitable distribution of income. Since income gets distributed among vast number of persons throughout the country, this help in the reduction of regional economic disparities.

Another advantage of great significance of these industries is the upgrading of the lives of the people in general. The freedom to work, self-reliance, self-confidence, enthusiasm to achieve and all such traits of a healthy nation can be built around the activities performed in these industries. It also becomes possible to preserve the inherited skill of our artisans which would otherwise disappear. Moreover, many ills of urbanization and concentration inherent in large-scale industries can be avoided by setting up of small industries. All these benefits flow from the fact that these industries are highly labour-intensive, and that these can be set up anywhere in the country with small resources.

Problems Faced by Small-Scale Industries

The small-scale industries, despite their importance for the economy, are not contributing to their full towards the development of the country. It is because these industries are beset with a number of problems in regard to their operations. These problems are discussed below.

Inadequate Finance: A serious problem of these industries is in respect of credit, both for long-term and short-term purposes. This is evident from the fact that the supply of credit has not been commensurate with their needs associated with fixed and working capital. Very often the credit has not been timely. Its delayed availability has been a major factor in causing much of industrial sickness in this sector. The credit situation is particularly hard for the very small or tiny units.

Difficulties of Marketing: The small-scale industries also faced the acute problem of marketing their products. The problems arises from such factors as small scale of production, lack of standardization of products, inadequate market knowledge, competition from technically more efficient units, deficient demand, etc. Apart from the inadequacy of marketing facilities, the cost of promoting and selling their products too is high. The result is large and increasing subsidies which impose heavy burden on the government budgets.

Shortage of Raw Materials: Then there is the problem of raw materials which continues to plague these industries. Raw materials are available neither in sufficient quantity, nor of requisite quality, nor at reasonable prices. Being small purchasers, the producers are not able to undertake bulk buying as the large industries can do. The result is taking whatever is available, of whatever quality and at high prices. This adversely affects their production, products, quality and costs.

Low-Level Technology: The methods of production which the small and tiny enterprises use are old and inefficient. The result is low productivity, poor quality of products and high costs. The producers for lack of imformation, know very little about modern technologies and training opportunities which concerns them. There is little of research and development in this field in the country.

Competition from Large-Scale Industries: Another serious problem which these industries face is that of competition from large-scale industries. Large-scale industries which uses the latest technologies with access to many facilities in the country can easily out-priced and out-sell the small producers. With the liberalization of the economy in recent years, this problem has become all the more serious.

For all these reasons, the small producers in the small-scale industries find themselves in a very precarious position.

MAJOR CAUSES OF SICKNESS IN SMALL SCALE INDUSTRIES AND REMEDIES

MAJOR CAUSES

1. INADEQUACY OF WORKING CAPITAL

Some units turn out sick due to inadequacy of working capital. There may exists delay in sanction of working capital by financial institutions. Industrial units find it difficult to meet out day to day operations due to the time gap between sanction of term loan and working capital needs. Shortage of Working Capital is one of the main reasons for sickness.

2. NON-AVAILABILITY OF CREDIT
Sickness in SSI sector may be attributed to non-availability of credit. Delay in getting loans may result in stoppage of work or lead to production loss. Low production may lead to reduced sales which in turn may lead to financial loss.

3. POOR AND OBSOLETE TECHNOLOGY
Some industrial units use technology which is outdated. Out dated technology may affect the quantity and quality of production. This results in production loss and reduces demand for the goods.

4. NON AVAILABILITY OF RAW MATERIAL
Some units may require raw material which are scarcely available. Sometimes, the raw material required by the unit may not be available in abundance. Hence, this affects the production and the sales of the goods. If the raw material is not abundantly available, then the industrial units have to spend a large amount of money to buy them. This may result in financial loss.

5. MARKETING PROBLEMS
Sometimes, the industrial units may not know as to how to create demand for the products. Lack of marketing knowledge may result in less demand for the goods. Similarly, there may be less demand for the goods produced by the SSI due to competition or change in the taste of the buyers.

For example, lot of units producing dyes and ceramics have been found sick in Gujarat and Tirupur.

6. ERRATIC POWER SUPPLY
Shortage in power supply affects the industries. This results in delay in production of goods and leads to financial losses.

7. LABOUR PROBLEMS
The relationship between the employer and the employees may not be cordial. Some of the labour problems such as strike, lay off, lock out may lead to industrial sickness.

8. POOR MANAGEMENT
The entrepreneur must be a good planner, organizer and a manager. If the Industrial Unit promoters lack managerial skills, then it may lead to several problems.

9. INADEQUATE ATTENTION TO R&D
Industries have to allocate a part of money in research and development to survive and compete with competitors. Failure to focus on the above may lead to industrial sickness

10. DIVERSION OF RESOURCES
If the employer utilizes the funds obtained for the business for any personal purposes, then diversion of funds will lead to industrial sickness. The funds used for personal purposes cannot be regenerated and hence it may result in delay in payment of loans or financial crisis for the borrower of the loan.

11. GLOBALIZATION
Small scale industrial units may find it very difficult to compete with large scale industries and foreign competitors. Inability of the units to face growing competition due to liberalization and globalization may lead to industrial sickness.
12. DISPUTE AMONG PARTNERS
There may arise dispute between the partners or family members running the unit. This results in stoppage of work and leads to industrial sickness.

13. OVERAMBITIOUS PROJECTS
The project may not be technically feasible, such an overambitious project is one of the reasons for industrial sickness.

REMEDIAL MEASURES TO OVERCOME SICKNESS

Some of the remedial measures to curb and overcome sickness in industrial undertakings are as follows:

1. IDENTIFYING SICKNESS AT INITIAL STAGE
Sickness in Small Scale Industries are not a sudden phenomenon but it is a gradual process taking 5 to 7 years eroding the health of a unit beyond cure. Therefore, the identification and detection of the sickness at incipient stage is the first and foremost measure to detect and reduce industrial sickness. Sickness must be identified at initial stage.

2. FINANCIAL ASSISTANCE
Lending agencies need to relax their lengthy process and other norms for extending credit to the SSIs. To combat the incidence of sickness financial institutions should grant credit without delay to SSI sector.

A number of initiatives can be undertaken to overcome credit problems such as:.

1. Increasing Working capital limit.
2. Enhancing the powers of bank managers of specialized bank branches in offering credit to SSI.
3. Strengthening the mechanism for discounting bills.
4. Reduced rate of interest.

These measures would improve the flow of credit and keep a check on the incidence of sickness.

3. IMPROVING INFRASTRUCTURE
Infrastructure facilities can be improved by setting up industrial estates. Common testing centres etc., infrastructural problems can be solved by improving the roadways, waterways, establishing telecommunication systems.
4. TECHNOLOGY UP-GRADATION
Funds may be provided by the financial institutions for adoption of advanced technology. Similarly, some sort of training may be provided for use of the latest technology to overcome

technological problems. Technological up-gradation can help to overcome technological obsolescence.

5. MARKETING ASSISTANCE

Marketing assistance may be provided to entrepreneurs for marketing the goods produced by them. Government must help to market the goods. Government and Non Government Organizations (N.G.Os) can come forward for marketing the goods produced by the SSI sector. The problem of poor marketing of the products can be solved by coordinated efforts of entrepreneurs and promotional agencies.

6. LIQUIDATION

It is better to wind up the business when there is no possibility to revive the unit.

7. GOVERNMENT INTERVENTIONS

Interventions must be made by the government to prevent sickness. Periodic review of financial statements can help to identify and prevent sickness at initial stage.

8. TRAINING

A proper environment must be created where an entrepreneur will be educated and will have a proper knowledge, skill and experience about internal and external environment of business to compete with large-scale industries and multinational companies.

9. REHABILITATION

Potentially viable sick units should be dealt well for the purpose of rehabilitation. Rehabilitation is a remedy considered for industrial units, which have already become sick and for the units that are on the verge of collapse.

Under the provisions of SICA, 1985, the Government of India has established Board for Industrial and Financial Reconstruction (BIFR) in January 1987 for determining the preventive, ameliorative, remedial and other measures which are required to be taken in respect of sick industrial company and for expeditious enforcement of rehabilitation schemes.

8 Corrective Measures to Curb Industrial Sickness

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realization of urgency to the solution of the sick industry problem in India:

1. Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness.

It will not be less than correct to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.

2. In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness.

The time has come to substitute the old adage that ‘what cannot be cured has to be endured’ by ‘what cannot be cured should be ended’. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labours displaced due to unit closure is prevalent in the society.

3. At present, the attitudes of three different sets of a unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently. For example, management seeks freedom to close the unit if it feels it is no more viable. Financial institutions think that whatever can be salvaged should be salvaged.

Labour view is that in the event of the closure of the unit, they will lose job, provident fund and other benefits, therefore, the unit should continue production. Thus, all the three drag in different directions. But, if these diverse viewpoints could be properly integrated, their approach could be integrated and their interests could also be converged, the unit can be salvaged in the best interest of all the three.

It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large-scale industries.

5. It is found that the rehabilitation programmes for sick small units are often carried out in an adhoc and hap-hazardous manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit, etc.

However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.

6. Having taken a decision to rehabilitate a sick unit, the programme should be finalized quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates the sickness position and revival becomes a distant goal. At the same time, the rehabilitation programmes need to be implemented in full as a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit.

For instance, if the need-based funds are not released in full, the unit may not be able enough to operate above the break-even point. As a result, the unit may continue incurring losses and the additional working funds may also be wiped out to meet such losses.

7. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small-scale industries borrowers to identify units which are becoming sick or are prone to sickness.

The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programmes to facilitate them to take appropriate action.

8. Last but not the least; experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small-scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all.