



## A Dire Need Of 'Attractive Action Agenda' For Sick / Closed SMEs In Punjab.

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### ABSTRACT

*The Small and Medium Enterprise (SME) Sector in Punjab which is the back-bone of Punjab Economy and Contributing around 50 % towards the total production in the state had been facing tough competition since long, from Utrakhand, Himachal Pradesh, J & K etc. as these are offering constantly huge tax exemptions. Poor funds and infrastructure, not at the desired level have put the Punjab SMEs choked-up with lack of modernization. The sector needs fresh breathing with soft-loans at lenient conditions, technology up-gradations and special concession to sick SMEs, and those too, which are lying closed for the years. The state government can thus, revive the ailing Industry and make them globally competitive. That's why, we need to draft and implement now, an attractive action-agenda for revitalization of sick SMEs in the state, related to the business of Auto Spare Parts, Casting, Textiles, Knit-ware Machine/Hand Tools, Food Processing and the like, which significantly dominate the state. The SME Sector continues to suffer huge losses on account of severe power shortage, too. As reported, nearly one Lac SMEs in Ludhiana only, which are entirely dependent on PSEB cancelled export orders, owing to non-fulfilment of contractual obligations, in absence of regular power supply for about 9-10 hours each day.*

*As a result, all furnace Industries and rolling mills remained shut down for nearly twelve hours daily. Really, it is a worse time going on, for SME Sector in the state. In the recent past, as observed, the production in SMEs of the selected districts of Punjab has dropped, due to this power shortage between 25 and 40 percent across the state. Many more are receiving cancellation of orders which is not one-time setback, however, the SMEs image in the state has been permanently dubbed and damaged, I personally feel. Therefore, a dire need is felt to generate additional Power / Electricity in Punjab State, in order to make it available sufficiently, as per the actual requirement to the marginalized SME Sector in the state. To my mind, state government is doing good but, it requires more to do, for better results.*

**Keywords : Persistent Persuasion, Pitable Condition, Revival, Road-Lock, Roadmap**

**A**fter persistent persuasion of my research study on SMEs in Punjab, covering mainly a few districts, like Ludhiana, Barnala and Sangrurduring last four years, it has been observed that the condition of Small and Medium Enterprises (SMEs) in the region is very pitiable. In a bid to re-energise them, there a need is felt to apply immediate befitting medicinal dose and fresh Oxygen for its revival. The prevalence of sickness in SME Sector today has been a major cause of concern. Need is to create a conducive environment and to make SMEs more competitive. Small and Medium Enterprises are the backbone of Indian Economy. Government has to facilitate and support them, who have the will to achieve something and the potential to succeed in their objectives. We would be happy to nurture sufficiently their spirit and make their dreams come true.

SMEs which employ about 60 million people of the country and contribute about 40% to India's overall exports are here badly hit in the Punjab region. Therefore, it is proposed to raise additional allocation of Grant and to Constitute a high

state level task force to suggest an Action Agenda to help SME Sector ; it will monitor the implementation of the recommendation and Action Agenda for fruitful action, for SMEs in particular, it will be better, if separate fund is created in Punjab. Government of Punjab has done commendably in this direction and introduced many more Schemes / Reforms for revival of Sick Small Scale Industrial Units, with a view to create Conducive Climate for them. State's Industry has to meet the challenges of Qualitative Products, Environmental Requirements and increased competition. It is to take full advantage of new standard products, markets, inputs and available Technological Innovations. However, State Government will have to go a long way ahead for the welfare of SMEs special attention is required to be paid towards more generation of Electrical and Solar Power, effective tax administration and enhancement of competitiveness among existing SMEs. Incentives, Awards are to be offered for revitalization of SME Sector. Government Policies are to be implemented more effectively at a State / District level, as vital push for Small and Medium initiatives.

Table 1: Distribution of closed SMEs, District-wise and Location-wise

S.N.	Name of Districts	Number of Closed Units			Percentage to Total
		Rural	Urban	Total	
1	Gurdaspur	1428	3024	4452	5.38 %
2	Amritsar	2719	8127	10846	13.11 %
3	Kapoorthala	2379	2840	5219	6.31 %
4	Jalandhar	2179	10101	12280	14.84 %
5	Hoshiarpur	995	1392	2387	2.87 %
6	Nawanshahar	857	724	1581	1.91 %
7	Ropar	1417	1639	3056	3.69 %
8	Fatehgarh Sahib	2	18	20	0.02 %
9	<b>Ludhiana</b>	<b>4110</b>	<b>17542</b>	<b>21652</b>	<b>26.17 %</b>
10	Moga	814	1346	2160	2.61 %
11	Ferozepur	875	1412	2287	2.77 %
12	Mukatsar	560	968	1528	1.85 %
13	Faridkot	510	872	1382	1.67 %
14	Bathinda	806	1496	2302	2.78 %
15	Mansa	268	536	804	0.97 %
16	<b>Sangrur</b>	<b>2246</b>	<b>3740</b>	<b>5986</b>	<b>7.24 %</b>
17	Patiala	2220	2569	4789	5.79 %
	<b>Total</b>	<b>24385</b>	<b>58346</b>	<b>82731</b>	<b>100 %</b>

Source : Report on Third Census of Registered SSI Units and Sample Survey of Unregistered Units 2001-02 Punjab Directorate of Industries and Commerce, Government of Punjab.

The total SME Sector comprises 3,76,826 units (100 %) , spreading over the length and breadth of Punjab State. In terms of District-wise spread, it is estimated that Ludhiana (44,415 units) and Sangrur(944,061 Units) are 11.79 % and 11.69 % respectively of the total SMEs in Punjab.

#### Sickness In Sme Sector Of Punjab State

Using the definition of Sick SMEs given by Kohli Committee constituted by the Reserve Bank of India (RBI), it has been observed that the following criteria was adopted by the Government of Punjab to identify sick SMEs in third Census (2001-02)

1. Continuous decline in Gross Output compared to the previous two Financial years ;
2. Delay in Repayment of Loan for more than 12 months and --
3. Erosion in Net Worth to the extent of 50 % of the Net-Worth during the previous accounting year.

Indeed, RBI was instrumental in appointing committees from time to time to look into the matter of SME Sickness affecting the Sector, as to why SMEs had not been running Satisfactorily. It was found in Third Census that 9081 SMEs (13.97 %) were sick. The top Five Districts in terms of Number of Sick Units were Jalandhar, Ludhiana, Kapurthala, Amritsar and Patiala with a total share of 67.24 %. The Incipient Sickness measured in terms of continuous decline in Gross Output over three consecutive years was of the order of 1314 (2.02%) SMEs.

Table 1 : Percentage Distribution Of Sick / Incipient Sick SmeS In Total Sme Sector, District-wise

S.N.	Name of Districts	Sick SMEs	Sick / Incipient Sickness	Incipient Sick SMEs	Sick SMEs as per RBI Criteria
1	2	3	4	5	6
1	Gurdaspur	5.96	5.85	13.75	10.05
2	Amritsar	8.35	12.24	11.31	7.84
3	Kapoorthala	8.38	8.56	5.77	8.14
4	Jalandhar	27.30	20.48	10.64	24.28
5	Hoshiarpur	2.58	4.12	1.66	1.07
6	Nawanshahar	1.43	0.87	1.00	1.06
7	Ropar	3.20	2.71	4.77	3.04
8	Fatehgarh Sahib	0.03	0.11	0.00	0.00
9	<b>Ludhiana</b>	<b>17.15</b>	<b>26.76</b>	<b>18.41</b>	<b>17.12</b>
10	Moga	2.77	1.30	1.55	2.21
11	Ferozepur	4.26	3.14	8.09	4.19
12	Mukatsar	2.08	3.90	6.43	4.34
13	Faridkot	1.96	0.59	2.77	1.67
14	Bathinda	2.52	1.73	1.66	0.84
15	Mansa	0.63	0.33	0.44	0.69
16	<b>Sangrur</b>	<b>5.34</b>	<b>4.23</b>	<b>6.54</b>	<b>8.60</b>
17	Patiala	6.06	3.03	5.21	4.95
	<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

Source : 'Report on Third Census of Registered SMEs and Sample Survey of Unregistered Units 2001-02 Punjab Directorate of Industries and Commerce, Government of Punjab.

Where

3 = where there is erosion in Net Worth or, delay in repayment of Loan

4 = Erosion of Network or, delay in repayment of Loan or, Continuous decline in Gross Output

5 = Continuous decline in Gross Output

6 = among units with outstanding Loan where there is erosion in Net Worth or, delay in repayment of loan

The top Five Districts in this category were Jalandhar, Ludhiana, Gurdaspur, Sangrur and Kapurthala with a total share of 68.19 %. Combining the above three criteria, it was found that about 902 (1.39 %) SMEs were suffering from Sickness/Incipient Sickness. The top Five Districts were same as in case of Incipient Sickness, with a total share of 62.20 %.

It was further, observed in the survey that 'RiceMilling' in the Region was the worst affected activity in registered SME Sector ; while By-cycle,Cycle, Auto-parts , Furniture and Fixture, wood were affected entirely in the Unregistered SME Sector of the Punjab. The District-wise percentage distribution of Sick / Incipient Sick SMEs may be reproduced here, for knowledge sake.

#### PROBLEMS BEING FACED BY SMEs IN THE REGION

- Shortage in Power Supply but at costly rates :- Irregular Power Supply due to Power-cuts are affecting not only to the Furnace SMEs badly, but also to the business of Auto-parts, Cycles, Machine tools, Hand tools and sewing Machines etc. Interrupted Power Supply at costly rates dwindles or, cripples the Rice-milling in the region. It is said that Power rates in Punjab is highest in comparison to other states like - Haryana Rs. 4.72; Himachal Pradesh Rs. 3.61 ; Uttrakhand Rs. 3.65 ; Maharashtra Rs. 4.96 ; Karnataka Rs. 4.65 ; Punjab - Rs. 5.28 ).
- Migration of SMEs in Punjab to other States :- SMEs in Punjab are in hot water, in absence of regular / concessional Power Supply / Diesel Supply / Basic Amenities. Government Industrial Policy is responsible for the same upto certain extent. Other reasons are costly Furnace Oil, Coal , Labour and Electricity / Diesel etc.
- Labour Crisis :- Growth plans of SMEs in Punjab have hit a roadlock due to shortage of Quality / Trained manpower, to sustain the momentum. During survey, frequently asked questions were found how can one get best manpower, how to retain, how to grow without adequate trained manpower over a short period of time and how to meet shortage of skills.

With Punjabis, having entrepreneurial skills, there is also a need for to device Training Programs of Entrepreneurship for SME Sector in the region. An acute shortage of skilled labour has also started now hitting the production.

- VAT Policy of State Government :- Charging VAT @ 4 % and refunding VAT @ 2 % at later stage causes a great inconvenience to SMEs ; Government should charge VAT @ 2 % directly, instead of making refund at subsequent stage which is a herculiantask for the entrepreneurs.
- Punjab Industrial Policy 2009 fails to cheer Industry :- The New Industrial State Policy introduced in 2009 by the Government of Punjab was supposed failed to cut ice with SMEs in the state. Plagued by a severe power shortage, in adequate infrastructure and adverse taxation, the SMEs feel that policy is an utter failure offering nothing to SMEs in particular.

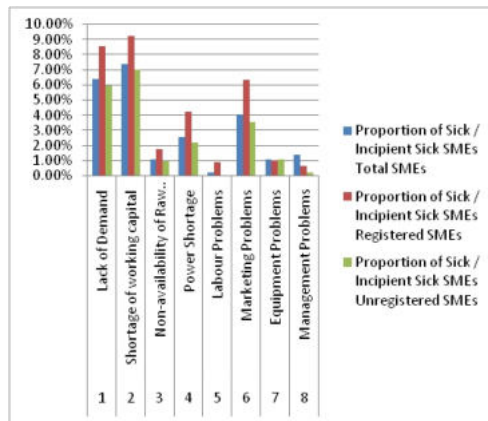
The majority view on this policy is that the interests of existing SMEs, have not been kept in mind. SMEs rued that nothing has been done to give a fillip to SMEs growth or, stem the migration from Punjab to the neighbouring states like Himachal Pradesh, Jammu and Kashmir, Uttrakhand etc. Majority felt that the policy nowhere addressed the biggest problem being faced by SME Sector today that of Power Shortage, but at highest rate in comparison to other states, as mentioned above.

"However, Padmabhushan Hon'ble Sh. S.P. Oswal, Chariman-cum-Managing Director of Vardhman Group felt that even if there was nothing to cheer about for local Industry, the policy is knowledge Industry and Worker Oriented ....though the existing Industry does not need stimulus but incentives like Power availability need to be addressed, he said" (The Tribune, dated 08.10.2009).

Following Table shows the reasons given by the SMEs in Punjab, suffering from sickness or, incipient sickness during Third Census (2001-02) :-

Table 3 : Reasons for Sickness / Incipient Sickness of SMEs in Punjab

S.N.	Main Reason Observed	Proportion of Sick / Incipient Sick SMEs		
		Total SMEs	Registered SMEs	Unregistered SMEs
1	Lack of Demand	6.45%	8.58%	6.01%
2	Shortage of working capital	7.41%	9.24%	7.03%
3	Non-availability of Raw Material	1.11%	1.76%	0.97%
4	Power Shortage	2.60%	4.29%	2.25%
5	Labour Problems	0.22%	0.90%	0.07%
6	Marketing Problems	4.07%	6.34%	3.60%
7	Equipment Problems	1.09%	1.05%	1.10%
8	Management Problems	1.41%	0.66%	0.25%



**Problem Solving Attractive action - Agenda For Sick/Closed SMEs In Punjab**

It is felt a dire need for Punjab State, in today's perspective to bring an attractive action agenda in the form of Problem-Solving Vision Document based on bottom-up approach for sick SMEs. The dwindling State of SMEs in Punjab can be re-vitalised/re-energised by boosting SMEs, rather than big industrial houses standards will be required to be maintained of International level, rather than local or, sub-standard indigenous it will require a sound infrastructure, sound Finance and encouraging for a balanced and healthy industrial environment, in Punjab for SMEs at root/ bottom level. Punjab SMEs cry today for appropriate support and guidance of the concerned authorities in a big way. "During the year 2006-07, there were 2,05,222 SMEs with Fixed Investment of Rs. 5,500 crore which generated Employment 9.64 lac persons with a production value of Rs. 35,000 crore. Government should ensure quality infrastructure for SMEs in particular, in terms of power, connectivity and communication. Financial support by way of soft-loans and subsidies is another need. Availability of manpower, by developing a network of world class Institutions are also

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needed. Support should be coming by way of suitable policy document, eliminating hassles and red-tapism".

( Source : North India @ 75 Punjab (Punjab Vision 2022) Revitalizing Growth through wide horizons CII).

The Action Agenda for Punjab SMEs should be simple, hassle free but, attractive in the sense that it should be asking consulting Entrepreneurs what they actually desire, and what actually needs to be done for achieving Small and Medium Entrepreneurs' aspirations, with the road map, sorting out their problems, at bottom level, in practice. Here, in real sense, Government of Punjab should play an instrumental role for SMEs, as supporter-cum-facilitator, with an objective, not only in the welfare of State, but also for well-economic growth of the Nation.

**Action Agenda**

01	<b>Power, the life-line of the Industry should be available round – the-clock at reasonable rates – In other words – Special 'Industrial Feeder' at reduced rates :</b>
	Punjab state is indeed a power -rich capable state can ensure uninterrupted power supply at subsidized rates to facilitate the Industry in welfare of the State as well as the Nation.
02	<b>Relief/Concession/special Exemptions to Sick and Closed SMEs</b>
	a) VAT Relief
	b) Exemption from 'Stamp Duty' and 'Registration Fee' for land deal
	c) Exemption from Inspection under various laws
	d) Exemption from clearance from PPCB
	e) Punjab Government should subsidize technology up-gradation of existing Industrial units so that they may become more competitive effectively.
03	<b>Special Funding for SMEs :</b>
	a) Attracting the budding/new Entrepreneur (s);
	b) Imparting useful guidance to the 'deserving Entrepreneurs(s) region-wise categorically;
	c) Funding meant specifically for SMEs to facilitate and support the growth at par with International standards;
	d) Restricting migration of SMEs to the neighbouring States;
	e) Strengthening the existing Industrial Infrastructure within the State by establishing common facility centres, R&D and marketing.
04	<b>Supporting or, Helping-Hand to the Sick/closed SMEs in the region :</b>
	a) By making it available, the soft-loaning to such units through the Financial Agencies of the Government itself;
	b) By providing incentives to the SMEs at-least at par with or, more than the neighbouring States;
	c) By introducing Monitoring Committees at every District Level, with a view to grant sanctions/clearances in a time bound manner and to set up SMEs appropriately in the State with better support and boost;
	d) By continuing concessions to sick SMEs at desirable extent;
	e) By authorizing chartered Environment Engineers for inspection of Plant and Machineries at par with Inspectors or, verifying authorities, with a view to replace their unwarranted harassing attitude towards Industries, in the region;
05.	<b>Attracting budding and outside Entrepreneurs to invest in Punjab State :</b>
	Budding Entrepreneurs, Existing Entrepreneurs and the Entrepreneurs outside the Punjab should be invited and attracted to invest and grow in healthy competitive Industrial environment of Punjab :-
	a) By making it available the Automatic clearance System for manufacturing and setting up new ventures;
	b) By levying no Market Fee and no Rural output Tax on purchases of agro and food processing industrial units;
	c) By providing capital subsidy to the new SMEs, the burning demand of now-a-days;
	d) By considering lenient Economic Package with certain incentives as well as facilitation, we may say to the budding entrepreneurs or, those entrepreneurs who are intended and keen to come and establish their business in Punjab, with reasonable relaxation in rules and regulations;
	e) By encouraging purchases directly from the Farmers and Charging Sales Tax/VAT at a very minimum possible rates.
06	In consideration of round-the-clock power supply, the State Government should consider to permit SMEs to operate manufacturing/marketing activities eight - hourly in three shifts, in a bid to boost state/national economy.
07	<b>State Government to spread message</b>
	a) For large Industries to become torch-bearer or, Facilitator of Medium-size Industries;
	b) For Medium Size Industries to become torch -bearer or, Facilitator of Micro/Small size Industries. Sick SMEs will start to revive itself.

**Conclusion**

The dire need of an attractive action agenda for sick/closed SMEs in Punjab will go down the drain, if not deliberated in-depth by the States Authorities and turned well into the practice properly. For favourable result-giving execution of the action agenda as elaborated above, it is imperative, the participation of Entrepreneurs and co-operation of the concerned State/District authorities in a transparent manner; it will be a vital push for sick/closed/existing SMEs in Punjab, if State/District concerned authorities monitor effectively the agenda for action. People wish to see the Punjab State as self-sufficient and perfect-efficient in governance. Yes, it can.