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HYDERABAD****ABSTRACT**

The Small and Medium Enterprises (SMEs) constitute a vibrant part of the Indian economy. Right from the early plan periods, poverty eradication and growth with equal opportunities have been the primary objectives of the Government of India. The SME sector is rightly considered as the best choice to achieve these objectives. As per various estimates available, SME sector is contributing about 8-9% of GDP and almost occupies a lion's share of 40% in the total exports of the country. Another significant factor to be noticed about this sector is its capacity to generate employment in rural and semi urban areas and thus promote rural development. Andhra Pradesh is having around 9 lakh SMEs operating in the state and is second largest of the country, in the total number of units. Further it is the first state in the country, which has introduced a scheme of single window clearance for establishing units in this sector. In this backdrop, an effort has been made by the authors to study the prospects of SME sector in the state of Andhra Pradesh. They also have come through a few practical problems in the process and suggested some possible alternative courses of action.

KEY WORDS

Andhra Pradesh, Development, Employment Generation, Growth Rate, SMEs.

INTRODUCTION

India is a country with rich human resources, both skilled and semi skilled distributed among its villages. Majority of the work force is engaged either in agriculture and allied activities or small and tiny industrial activities. The long-term development of the country therefore, depends on effectively utilizing the productive potential of these human resources. For the Indian economy, the role of small businesses is crucial, as they contribute significantly to generation of employment and wealth creation through manufacturing and export of goods and services. There are more than 12 million Small and Medium Enterprises in India, out of which 55% are located in the rural areas and remaining 45% are in cities and urban areas. In terms of operations nearly 40% are engaged in manufacturing, assembling and processing, about 16% in maintenance and repairs and around 44% in providing various services. The economic growth rate of this sector is about 8% per annum during the last decade, compared to an overall growth of 5% of the total industrial sector.

The SME sector is undergoing a big transformation in the current country, followed by the importance attached to this sector by the Government of India. During the last decade of a liberalized economy, the SME sector has witnessed a glittering growth by venturing into innovative business operations, adopting new skills and thereby improving their productivity. The rapidly escalating globalization of Indian Economy is providing enormous business opportunities for SMEs.

ANDHRA PRADESH: AN ATTRACTIVE DESTINATION

Andhra Pradesh is fifth largest State in the country with a land area of 2,76,754 sq. km, occupying 8.4 % of the Indian Territory, with a population of around 80 millions. It has the longest coastline of 972 km, amongst all the States in India. The capital city Hyderabad, occupies a central location and is well connected with rest of the world through its seaports on the eastern coast and through its international airport connecting almost all areas of the world, besides with well-established road and railways. Endowed with fertile land, water, and favourable agro-climatic conditions, it is well thought-out to be one of the prosperous states of the sub continent. Nearly 75% of geographic area is covered by river basins of the Godavari, Krishna and Pennar and their tributaries.

As an added advantage, Andhra Pradesh is a state with abundant energy. It is the second largest power producing state generating 10,273.44 MW, and is supposed to generate another 4,715 MW by 2010, with the help of various new projects. Also the state government is keen on

establishing and developing alternative sources of energy plants like solar energy, wind energy and gobar gas energy to supplement and strengthen the energy position of the state. In terms of industrial development, Andhra Pradesh occupies an important place in the country, offering an attractive destination to a number of small and medium enterprises.

SUPPORTING ENVIRONMENT TO SMES

Andhra Pradesh is the first state in the country to have a law for single-window clearances, which ensures that all clearances to entrepreneurs to establish their units in SME sector are given at a single point, within a set period. The State has enacted a law for single-window clearances in the year 2002. The state government has undertaken wide-ranging measures to create an amiable environment for its industries, in the form of simplified and less restrictive regulations, labour and fiscal reforms and incentives to weaker sections of the industry. The State has been qualified as "flexible" in its approach to labour regulations and "good" for its simplification of rules and regulations. It has introduced the concepts of self-certification, common annual returns in place of multiple returns with simplified registers, and zero inspection regime through the accredited agencies.

The State today, occupies second place in the country in the number of units, accounting for nearly 8, 75, 430 Small Tiny and cottage industries (among which, the share of SMEs is around 1,60,00), which emphasizes the fact that the contribution of Small Scale Sector to the State's economy cannot be under estimated. Employing a work force of over 15 lakhs, this sector contributes about Rs.4,800 Crores to the State Domestic Product and accounts for approximately 35-40% of the State's export. The potential of the sector to utilize locally available resources, skills and entrepreneurial ability is of enormous importance for a State, faced with the Herculean task of removing regional imbalances through dispersal of economic activity and provision of employment opportunities. Supplementary to this, the low operational costs and flexibility of adopting production processes of their choice make it more attractive to the upcoming entrepreneurs.

PRESENT SCENARIO

The authors as a part of the study have taken some statistical data related to the total number of SMEs, and their contribution to generation of employment in the last decade. The following is a schematic presentation of the same.

GROWTH OF SMES IN THE STATE

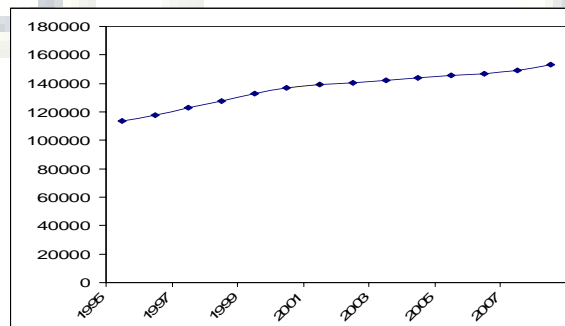
Due to the hospitable environment and encouraging policy framework of the state government, the small-scale sector has witnessed a tremendous growth in the last few years. The following table presents a picture of progress in the number of units.

Table: 1 Number of SMEs in the state from 1995-2008

Sl. No.	Period	No. of Units	Increase in Number
1	March 95	113697	
2	March 96	117820	4123
3	March 97	122790	5150
4	March 98	127725	4935
5	March 99	132722	4997
6	March 2000	136917	4195
7	March 2001	139041	2124
8	March 2002	140653	1612
9	March 2003	142294	1641
10	March 2004	143867	1573
11	March 2005	145499	1632
12	March 2006	146766	1267
13	March 2007	149206	2440
14	March 2008	153470	4264

Source: Economic survey of India, 2009

Graph:1 Growth of SMEs in A.P from 1995 to 2008



There has been a continuous raise in the number of units from 1995 to 2008, particularly a significant increase during 1998 and 1999. One can also observe a clear raise in the financial year 2008, when compared to the previous year. This can be partially be attributed to the global financial crisis, which has reduced the employment opportunities in the country, giving way to establishment of more number of units in SME sector.

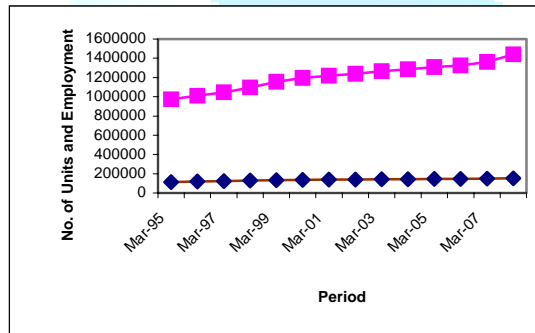
The SME sector is not only contributing to the economic growth, but it is also playing a vital role in the generation of employment. The following table presents some facts related to employment generation by small and medium enterprises during 1995 - 2008. The average contribution of each unit to employment generation has been calculated from the total number of SMEs and their capacity of generating employment. The impressive fact is that there has been a continuous rise in the average employment provided by this sector.

Table: 2 Contribution to the generation of Employment

Sl. No	Period	No. of Units	Employment	Average Employment
1	March 95	113697	975457	8.5
2	March 96	117820	1009293	8.5
3	March 97	122790	1047193	8.5
4	March 98	127725	1097192	8.59
5	March 99	132722	1155445	8.70
6	March 2000	136917	1195109	8.72
7	March 2001	139041	1220542	8.77
8	March 2002	140653	1239753	8.81
9	March 2003	142294	1264046	8.88
10	March 2004	143867	1285995	8.93
11	March 2005	145499	1310071	9.00
12	March 2006	146766	1325903	9.03
13	March 2007	149206	1361922	9.12
14	March 2008	153470	1439786	9.38

Source: Economic survey of India, 2009(Average calculated by the authors)

Graph:2 Average Employment Generation by SMEs



In the above graph the lower line represents average employment and the upper line represents total employment generated through SME sector. The average employment in 1995 is 8.5, which is stable for three years and then began to rise. It has become 9.38 by the year 2008, that highlights the worth of this sector in the generation of employment.

From the above statistics, it is apparent that SME sector is playing a crucial role in the development of the state. But at the same time, there were certain hurdles faced by this sector that are restricting the entry of enthusiastic entrepreneurs. The major hurdles are availability of credit and marketing facilities to these units. The following is a discussion on the major problems faced by the units operating in the state.

FINANCIAL AND CREDIT RELATED PROBLEMS

Though the government of India is attaching more and more importance to the development of small-scale enterprises by means of various support measures, they are facing several problems in practice. The major problem, which continues to be a big hurdle for the development SMEs is lack of access to timely and adequate credit. The Abid Hussain Committee on SSIs (1997) have examined the problems of SSIs and recommended a package of policies to restructure the industries in the context of global economic challenges. It supported Nayak committee’s recommendations of financial support to SME sector, through State Financial Corporations and emphasized on making use of other funding support for SMEs, including credit rating services The Nayak committee recommended that a desirable norm of 20% value of production can be made available as working capital to these units by prime lending institutions and commercial banks as against the existing 13% value of production.

To be specific the credit related problems could be listed as below

1. SMEs are charged with higher rates of interest because of higher transaction costs on an average loan size. This is increasing the credit burden of these organizations and making them suffer in competing with global giants.
2. Private sector banks are not able to contribute significantly to the penetration of loan schemes in the rural areas. Banks are not showing any interest in this area, as the small and weaker sections are unable to provide collaterals against the loans granted.

3. Lack of awareness about financial products and services, among small entrepreneurs is another obstacle for the development of SME sector. The weaker sections hesitate to borrow loans from banks as it involves cumbersome documentation process, which they cannot go through.
4. SMEs particularly in the field of exports, lack in awareness about the institutional support extended to them, in terms of provision of foreign currency payments and other related aspects. This is resulting in less percentage utilization of available opportunities in the overall exports and allied activities.
5. To compete globally, the small-scale sector needs to invest in modernizing their technologies through collaborations with research institutes, which in turn is associated with a lot of capital investment. Neither prime lending institutions nor commercial banks are coming forward to lend loans in this area.

MARKETING PROBLEMS

The nature of marketing is ever changing so does the problems associated with marketing. The Indian SMEs are facing a lot of problems related to marketing in both the national and international arenas. The products are having a demand and publicity in their vicinity of production. But when it comes to marketing of their products in urban markets they are unable to communicate properly about their products and services. The core problems of marketing are discussed hereunder.

- The SME sector is mostly consisting of family run businesses, which generally employ family members at various positions of hierarchy. Quite often, these people lack professional knowledge and wisdom that is needed to market their products and services.
- It is observed that, most of the times the SME sector ends up with inappropriate marketing strategies applicable to that particular segment or the total market. These units are not aware of modern techniques like supply chain management, just in time inventory, and other logistics associated with marketing and are unable to compete with other industrial units.
- These organizations also have a problem of customer awareness, as they do not adopt any publicity and advertisement strategies. Most of their products are sold through word of mouth publicity and direct selling. Occasionally, the government in association with the local authorities organizes exhibitions to promote these units. Still the small enterprises are unable to utilize this opportunity because of low levels of literacy, unawareness and shortage of working capital.
- SMEs have a tendency to export what they have manufactured without having knowledge of the quality, timing, or presentation of the product as required by the importing organization. They learn only when the importer chokes them up in terms of non-payment due to inferior stuff or other related aspects.
- Many small companies fail to get orders or even enquiries in the absence of a unique selling point (USP) for their products. Many enterprises are unable to explain their target customers about the uniqueness or special features of their products.
- Most of the SMEs don't market themselves enough because they think that they can't afford to do. They have to understand the fact that to make big markets, the organizations need not spend a lot.
- Several enterprises suppose that only big companies enter the online arena to market their products. Most of the SMEs are yet to realize that online marketing is a cost effective advertising channel that can effectively reach more number of customers.
- SMEs also encounter a problem in expanding their markets, owing to lack of marketing arrangements with other bodies. The interdependence of different strata of industries (large, medium and small) has not been fully realized and made use of.
- The emerging challenge to the small-scale sector is to combat the agreements under WTO. The agreements under TRIPS call for tighter patent laws through regulation of intellectual property rights, which are becoming a costly affair to SMEs.
- Majority of SMEs are unable to participate in Industrial exhibitions and Expos organized internationally. This is due to, costs associated with transportation of the produce and traveling costs of the entrepreneurs themselves. Further these units are not aware of the formalities to be completed for registering their firms for these fairs. Consequently, SMEs are finding it difficult to participate in overseas market.

SOME SUGGESTIONS FOR IMPROVEMENT

Solutions to the above problems cannot always be offered either by the government or non-government agencies. The entrepreneurs can also initiate certain measures to come out of the gamut of problems. The authors have suggested some possible solutions to the problems as mentioned under.

1. SMEs of the state are not able to utilize the benefits associated with latest programs like e-commerce with the help of which, reachability of the products and services can be increased. At the outset, they have to come out of the feeling that the investments related to development of websites are additional expenses to their existing businesses.
2. SMEs should develop their websites in English language for spreading their reach beyond India. Bodies such as Confederation of Indian Industries (CII), Trade India and other Non-Government Agencies working in the field can come forward to conduct awareness programs for small entrepreneurs about various facilities available in the international markets.
3. SMEs are unable to adopt the techniques of conventional marketing as they always will have a limitation of resources. They need to think beyond conventional marketing and search for alternative approaches like personal contact networks, social networks, B2B portals, E-Commerce tools, Business Networks and Industry and Marketing networks.
4. SMEs have to develop awareness on various credit guarantee programs like subsidies and other benefits offered by commercial banks and government institutions working in the segment to get rid of financial and credit related problems. They can form into associations and avail the facilities with minimum effort.
5. Indian SMEs have to take a note of technical barriers to trade (TBT) in view of technical standards set by developed countries, as the requirements of these countries will be with high standards of technology and accuracy is considered as the key principle for getting orders.
6. Majority SMEs are unable to build brands as they are in the perception that it is a costly issue. To reduce expenses, they can go for brand building in combinations or clusters. Clusters allow local small producers to make effective use of underutilized resources, such as small-scale savings or family labor, generating incomes that they could not avail by operating in isolation.

DEVELOPMENTAL ASSISTANCE

The state government of Andhra Pradesh has recognized the importance of SMEs and is providing a supporting environment to the development of SME sector. AP is the state which has promoted as many as 52 Special Economic Zones (SEZ) and 7 more are in progress. The initiatives of the state government to promote SMEs under various schemes and heads have been presented hereunder. Even though the initiatives are in a number of spheres, our focus has been on two important aspects i.e., finance and marketing.

FINANCIAL ASSISTANCE

Finance has been identified as the most important factor determining the survival and growth of small and medium enterprises. Access to finance allows industrial units to undertake productive investments, to expand their businesses and to acquire latest technologies, thus ensuring their competitiveness and that of the nation as a whole. To promote investments in this sector the government is equipping entrepreneurs with the following subsidies in investments and credit support.

INVESTMENT SUBSIDY

- **Cash Subsidy:** To provide support to the investors at entry level and to give impetus to industrial growth, Government is providing cash subsidies as applicable, depending upon the total investments.
- **Investment Subsidy:** The small units are also granted an investment subsidy of 15% on fixed capital investment to set up a SSI/Tiny industrial unit, subject to a maximum limit of Rs.15 lakh.
- **Additional subsidy:** An additional subsidy of 5% on fixed capital investment will be granted, subject to a maximum of Rs.5 lakhs to SC/ST entrepreneurs.

CREDIT SUPPORT

- **Rebate on Prime Lending Rate:** An interest rebate of 3%, on Prime Lending Rate (PLR) will be given on term loans taken by new Tiny/SSI industrial units subject to a maximum of Rs.5.00 lakh per annum for a period of 5 years.
- **Seed Capital Assistance:** A seed capital assistance of 5% of total project cost will be provided to SSI/Tiny industries started by SC /ST entrepreneurs as a grant by Prime Lending Institutions under National Equity Fund Scheme subject to a maximum of Rs.5 lakhs.
- **Loans without Collateral Security:** Under Credit Guarantee Fund, operated by SIDBI, credit will be provided to small scale units without any collateral security up to a limit of Rs.25 lakhs of investment. To support this initiative and also to improve credit flow to small-scale sector, a corpus fund has been formed with a matching contribution by the consortium of industries in Industrial Estates/Clusters subject to a maximum limit of Rs.25 Lakhs.

MARKETING ASSISTANCE

SMEs are provided with certain reservations in marketing their products by imposing regulatory barriers over large-scale industries and non-local units. An exclusive marketing policy for Small Scale Industrial units has been formulated to create better opportunities for marketing the goods especially to Government Organizations. Other measures include

- **Provision of Ground Rent:** Assistance by way of grant will be provided to SMEs towards ground rent for participation in the National Exhibitions and trade fairs subject to a maximum limit of 9 Sq Mts.
- **Recovery of Dues:** The Government is rendering assistance for Small Scale Industries to recover their dues of goods or services sold to buyers along with interest, under Delayed Payment Act.
- **Common Platforms:** Vendor Development programs cum buyer seller meets are regularly organized in the State at different places, to assist Small Scale Industries in identifying appropriate market sources.
- **HITEX (Hyderabad International Trade Expositions Ltd.):** To conduct exhibitions and trade fairs and to promote sales of Industrial Goods manufactured by the local industry, an exclusive Center "HITEX" has been established with all amenities in the state capital, Hyderabad.
- **Provision of Information:** A booklet incorporating all the items required by Government Corporations/ Boards and large companies is published from time to time for the benefit of small-scale industries.
- **Reservation in purchases:** The state government also has reserved certain items for exclusive purchase from the small and tiny units. These products will be purchased from small and tiny units only, to encourage marketing of goods manufactured by these units.

Along with the above-mentioned schemes, the state government is also implementing cluster development program in SME sector, which provides an opportunity for small firms to complement each other, in order to bid for large pieces of work that they can not get as individual units. Government of Andhra Pradesh already has identified 6 industrial clusters for development under "Industrial Infrastructure Up-gradation Scheme". Of which, two clusters namely Pharma Cluster near Hyderabad and Auto Components Cluster in Vijayawada have been approved by the Government of India for assistance and are in progress. The other 4 clusters, viz. Marine food Processing Cluster in Bheemavaram, Power loom Cluster in Sircilla, Leather Cluster in Hyderabad and Precision Engineering Tools and Components in Ranga Reddy are under consideration by the Government of India.

To reduce entry barriers into SME sector, the state government is implementing Single Window Scheme that enables enterprising investors to understand all the rules and regulations and get clearance through a single point, within a limited time period. Small and Tiny industries can find every information from the District Industries Center (DIC) and can secure the required industrial clearances both for establishment and operations under Single Window concept.

CONCLUSION

The SME sector of the country always has been the barometer of business cycles. This sector owing to its size and lack of scale is most vulnerable to volatilities in the economy. During 2003-2007, SMEs have benefited enormously from the boom prevailing in Indian Economy. Despite the financial crisis prevailing in global markets, the growth rate of SME sector is impressive in the last financial year. The Government of India is also extending a helping hand to the schemes of state government. Recently, the Government directed all public sector banks to

provide more financial assistance to the needs of small industrial units without any collateral security. Leading public sector banks like SBI, Bank of India have already recognized the contribution of SME sector to the progress of Indian economy and have been delivering loans on a priority basis, to the units operating in the state. Developmental Institutions like SIDBI, NSIC are also contributing their share in implementing various schemes for SME sector in the state. The apex bank RBI has initiated various relief packages during the financial crisis to small and medium enterprises, keeping in view the significance of small-scale sector in the achievement of long term objectives of growth and poverty alleviation. The State government is extending indispensable support to SMEs operating in the state to prosper, making it very attractive to the small entrepreneurs. The small entrepreneurs can make use of all these measures to establish their units in the state and can become catalysts of development.

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