

RBI definition of sickness is right, says survey

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AROUND 62 PER CENT of the SME members of the PHD Chamber are satisfied with the Reserve Bank of India's prevailing definition of sickness, while the remainder feels that there is a need for fine-tuning. Of the latter, the majority (around 50 per cent), felt that sickness should be linked to loss of liquidity.

Another 20 per cent felt that the definition of sickness should be linked to the inability to pay debt to secured creditors representing 50 per cent or more of outstanding debt, while 8 per cent felt that it should be linked to erosion of net worth due to accumulated losses. Around 22 per cent felt that a combination of the above factors should be used in defining sickness.

These are the findings of a recent survey undertaken by the PHD Chamber among small and medium enterprises located in Uttar Pradesh, Haryana, Punjab, Rajasthan, Madhya Pradesh, Himachal Pradesh, Jammu & Kashmir, Uttarakhand, Punjab, Chandigarh and Delhi.

Respondents felt that provisions under various laws — relating to taxation, labour, environment, etc — should be different for SMEs and large enterprises. There should be flexibility in the rules framed for SMEs to enhance their competitiveness.

Besides, there is need to simplify tax administration and rationalise the tax structure in order to promote cost-effectiveness in industry and help companies undertake corporate planning. There is also

need for better coordination between central and state governments so that the policies formulated by the Centre are effectively implemented at the state level.

SMEs continue to face a manpower deficit in areas such as accounts, marketing, servicing, IT and technology. This is a barrier to innovation. Hence, more training and vocational education centres should be provided for upskilling the workforce for the challenges of a competitive global environment.

Recent evidence shows that wage rates have been continuously increasing by around 9.5 per cent per year in rural India for the last two decades in response to growth. However, this has not been accompanied by a commensurate rise in productivity, due to non-availability of

appropriate skills among the workforce.

Such a situation, when taken together with the recent appreciation of the rupee, is adversely affecting the competitiveness of SMEs, thereby driving industry towards sickness. The textile industry is a classic example, the survey says.

They have identified limited marketing budgets, lack of market intelligence and technological obsolescence as major contributors to sickness among SMEs. Poor delivery schedules and lack of proper distribution systems are other problems faced by SMEs.

The problem of poor marketing of products and technological obsolescence can be solved by coordinated efforts of entrepreneurs and promotional agencies along with government support.