

CHAPTER VI
PROBLEMS OF INDUSTRIAL UNITS

Introduction

Promotion of cottage and small scale industrial units is one of the major objectives of the industrial estates programme. In Nepal too, industrial estates have been emphasizing this aspect. In the process of collecting requisite information for the study, many entrepreneurs in these estates complained to this researcher about the inadequate facilities available therein. This chapter brings out major problems of the respondent units. These problems have been classified into two broad categories:

1. Problems arising on account of indifferent management of industrial estates.
2. Other problems faced by entrepreneurs.

1. Problems Arising On Account Of Indifferent Management Of Industrial Estates

40 percent of the total respondent-entrepreneurs had mentioned that due to indifferent management of industrial estates, the following problems have cropped up:

- 1.1 Shortage and irregular supply of power
- 1.2 Lack of central repair-shop

- 1.3 Inadequate security arrangement
- 1.4 Ill-equipped and non-functioning health clinics
- 1.5 Lack of congenial atmosphere for promoting
inter-unit relations

1.1 Shortage and Irregular Supply of Power

The industrial estate authorities had not been able to supply the electricity at subsidised rates to the industrial units. Instead they charged usual rate plus 5 percent service charge on the total units utilised. Besides this, the supply used to be irregular which ultimately hindered the smooth operation of the units. For instance, the industrial units in Butwal Industrial District had to operate only at nights, because of frequent power-failures at day-time.

Because of the indifferent attitude of industrial estate management, no specific agreement with electricity corporation of Nepal for industrial purpose had been made for ensuring regular supply at economical prices.

1.2 Lack of Central Repair-shop

None of the estates provided central repair-shop as a facility to entrepreneurs. The repair-workshops in PIE, NIE and DID were the production units being run by individual

entrepreneurs. This being the situation, the facilities to repair the machineries in these three estates were also not enough to meet the actual requirements. There was complete dearth of this facility in the remaining estates and the entrepreneurs in them had to depend totally on facilities available outside the estates.

1.3 Inadequate Security Arrangement

Security arrangement provided by the estate authorities in most of the estates seemed to be inadequate. Each and every entrepreneur in almost all the estates had employed individual guards or night watchmen to minimise incidents of theft which had become rather frequent.

1.4 Ill-Equipped and Non-Functioning Health-clinics

The existing clinics in all industrial estates were not at all equipped with required men and materials. Health clinics in some estates remained locked most of the time, as informed by the entrepreneurs. In view of this, the industrial units were compelled to depend on clinics or hospitals outside the estates.

1.5 Lack of Congenial Atmosphere for Promoting
Inter-Unit Relations

As all the estates belonged to mixed or composite type, admission of industrial units was based on "first-come

first-served" principle. This had created an atmosphere where very few units get the chance of having inter-unit transactions for mutual benefit.

2. Other Problems of Entrepreneurs

2.1 Lack of Demand For the Finished Goods

Almost 70 percent of the respondents of the study were of the opinion that one of the prominent problems faced by them is lack of demand for their products (Annexure 5.2). The main causes behind this situation may be multifarious. In case of small enterprises, many a time the deficiency of demand may be a manifestation of the organisational or technical inefficiency of the relevant industrial units.¹ But we shall discuss only those problems which had been suggested by the entrepreneurs themselves. These are presented in the following order:

2.1.1 Competition from imported goods of similar nature and products of large domestic units available at cheap prices, and

2.1.2 High cost of production of indigenous products.

1. Sangvi, R.L. : Role of Industrial Estates in a Developing Economy, (Bombay, Multi-tech Publishing Co), 1979. P.196.

2.1.1 Competition from imported goods of similar nature
and products of large domestic units

The Government did not seem to have any strict and specific policy to restrict or control the import of such commodities which were or could be produced within the country. As a result, certain indigenous products had to face stiff competition with the foreign goods which were both cheaper and of better quality than the former.

Moreover, the government also indiscriminately registered both large scale and small scale industrial units producing similar goods. This had caused cut-throat competition between the small and big units within the same industry, ultimately leading to the closure of small units. This had been mentioned by as many as 45 per cent of the total respondent-units.

2.1.2 High Cost of Production

According to the opinions of 51 per cent of the total respondent-units as shown in Annexure 5.3, the cost of production in Nepalese industrial units is generally much higher than that of the foreign goods. This is true for units within and outside the industrial estates. The phenomenon of high cost of production may be attributed to

these factors viz, scarcity of raw materials, non-availability of loan or working capital, high transportation costs, unutilised installed capacity and frequent labour unrests. All of these factors are discussed below:

(a) Scarcity of Raw Materials

Many industrial units were dependent on imported raw materials either from India or other countries. For importing these, import licences and foreign exchange have to be granted by the concerned Governmental agencies. About one-third of the respondent-entrepreneurs were of the opinion that, because of the corrupt practices in the Government departments or agencies, unusual delay is caused in granting permissions and facilities to import raw materials. This situation compelled the industrial units to acquire raw materials from middlemen at exorbitant rates. Almost 29.4 percent of sample industrial units had to experience this difficulty(Annexure 6.1). Even units using locally available raw materials, had to pay higher prices on account of artificial scarcity created by the middlemen. This happens as there is no proper control by the Government.

While these observations apply in general to almost all the units, in particular the engineering units had to face an acute shortage of both imported and indigenous

raw materials. It may be noted that the engineering units form a majority in some industrial estates.

(b) Non-Availability of Loan in Times of Need

Generally, the branches of commercial banks in the industrial estate premises are supposed to provide short-term and long-term loans to the industrial units. But in practice, the financial institutions involved in industrial finance i.e. Commercial Banks and Nepal Industrial Development Corporation take so much time in granting loan that the parties concerned are compelled to meet their urgent need of capital from indigenous money lenders or non-institutional agencies at such high rates of interest as 20 to 30 per cent per annum. This considerably increases the cost of production.

(c) High Transportation Cost

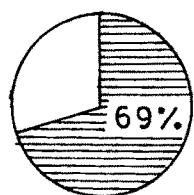
Because of the everrising international price of oil and usual rise in prices of other commodities, transportation charges have also gone up. High transportation costs to be borne by industrial units affect the total cost of production of their products.

(d) Unutilised Installed Capacity


In the year 1982-83, the industrial units in BID, DID, NIE and PID were able to utilise 69,66, 65 and 100 percent

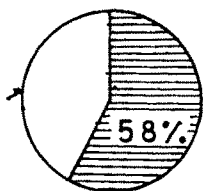
Figure 6.1

AVERAGE CAPACITY UTILIZATION IN EACH ESTATE
During 1982-83

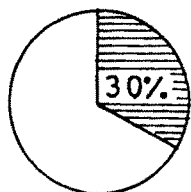


Balaju Industrial District
(BID)

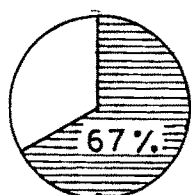
 CAPACITY UTILIZED



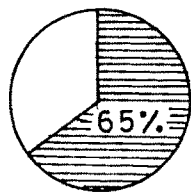
Hetauda Industrial District
(HID)



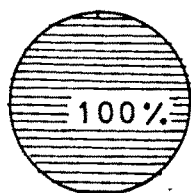
Patan Industrial Estate.
(PIE)



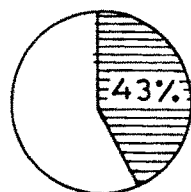
Dharan Industrial Estate.
(DIE)



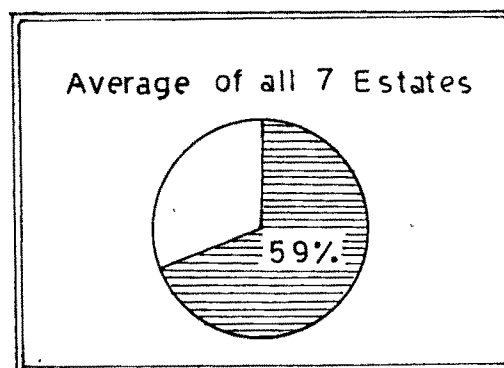
Nepalgunj Industrial Estate.
(N I E)



Pokhara Industrial District.
(P I D)



Butwal Industrial District.
(But. I D.)



of their installed capacity respectively. But on an average the units in almost all industrial estates utilised only 59 percent of their installed capacity (Annexure 5.2). The non-utilisation of installed capacity up to 41 percent affects the per unit price of the commodity. As a result, the benefits which could have been accrued from large scale production was almost non-existent. Because the cost of production was affected by excessive overhead costs such as repair and maintenance of under-utilised machines, depreciation and maintenance costs of buildings and other fixed assets.

(e) Frequent Labour Unrests

In BID and HID, the industrial units have to face frequent strikes declared by the labourers, because of the existence of industrial units belonging to both private and public sectors. Whenever a public sector unit provides certain additional facility to its employees, the employees of the private sector units also start demanding similar facility. The non-fulfilment of their demand is usually followed by strikes or go-slow movements. In either case, the entrepreneurs are compelled to pay even for those days when no work was done by the labourers, resulting in higher unit cost.

Over and above these, the problems enumerated under the first category i.e. problems arising on account of

indifferent management of industrial estates also contribute to increased cost of production. It may also be mentioned that many of these problems are inter-related regardless of the category in which they have been included.

Suggestions

A few corrective measures in relation to the problems faced by existing industrial units in all the estates are suggested below:

1. To solve the first category of problems, it is high time that ISC should inculcate service-oriented attitudes amongst its personnels managing the estates. This can be achieved by collecting opinions of entrepreneurs at suitable intervals for devising the directions to be followed by the estate managers or by providing different incentives for estate managers.
2. To encourage inter-firm cooperation and inter-linked development of smaller units, the present heterogeneous character of some of the estates has to be changed into homogeneous one. To achieve this, the group of industrial units to be admitted should either:

- (a) have common requirements of services which can be economically provided by industrial estates; or
 - (b) produce goods of inter-dependent nature so that one unit can utilise the product of another; or
 - (c) produce different parts of the same finished product, which is to be produced or assembled into one by a big unit of industrial estate or outside it.
3. To minimise the number of unsuccessful units in the estates, the estate management may attempt to give priority to such units which:
- (a) intend to produce items usually needed by public institutions such as government ministries or departments, police, schools, hospitals, armed forces, public transportation etc., as the demand of these sectors remains more or less stable;
 - (b) intend to use intensive methods of production and are related to agriculture, forestry, mining and other natural resources in order to provide immediate opportunities of employment in the area concerned;

- (c) require technically qualified entrepreneurs;
 - (d) would produce goods in conformity with other developmental programmes in the area, e.g. mechanisation of agriculture and electrification.
4. Many of the existing problems of industrial units may be solved without much difficulty if the ISC forms an Industrial Estate Planning Board at the Zonal level with the proper representation of different agencies like industries department of HMG/N, electricity and water supplying agencies, agriculture department of HMG/N, financial institutions, revenue office of HMG/N and chamber of commerce. This will instill a sense of responsibility and commitment on the part of concerned officials. Simultaneously, an effort must be made by the ISC officials posted in industrial estates to involve local leadership in the programme.
5. To assist the industrial units, the estate management should encourage the financial institutions like NIDC and ADB to adopt more liberal criteria for approving loans to small enterprises than those applied by commercial banks.¹

1. U.N.: "The effectiveness of Industrial Estates In Developing Countries" Chapt. IV.

In particular, they should place more emphasis on the merit of the project than on the collateral. For this purpose, they should ensure proper supervision of the use of their funds through officials trained in such areas as project development and management.

6. Although an industrial estate is supposed to be primarily a centre for industrial growth, it should be regarded as also the nucleus of a new rural-urban community. It is, therefore, advisable to provide the amenities of community life inside the estate through housing (subsidised, if necessary) and various types of cultural and recreational facilities. In the present context, this attempt can be made in all estates excluding BID and PIE.
7. Once the Government has established an industrial estate in a certain area, it should prepare a plan for a new township and a new urban community that would be expected to grow up in that area. It would not only promote community life in that area but would also avoid congestion in adjacent towns.