



MADURAI KAMARAJ UNIVERSITY

(University with Potential for Excellence)

DISTANCE EDUCATION



251

**P.G. Diploma in
Entrepreneurship Development**

PAPER - V

SMALL BUSINESS MANAGEMENT

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SYLLABUS

SMALL BUSINESS MANAGEMENT

UNIT - I

Introduction : Small Scale Sectors - Indian Economy - Importance - Advantages - Development of SSI in India - Pre-Independence and Post-Independence scenario of Small Business - the Growth of Small Business through Industrial Policies.

UNIT - II

Small Scale Industries in India : Role of Small Business in Industrialization of India - Public Sector outlays and plan provisions for Village and Small Business - Industrial Development in Backward Regions - Policies and Programmes for Development of Small Business - Industrial Estates.

UNIT - III

Capital Structure of Selected Units : Nature of activity of Sample Units - Occupational Background - Locations, Social Status - Educational Status of Sample Units - Capital Structure - Source of Inputs and Markets - Income and capital Intensity.

UNIT - IV

Human Resources in Small Business : Nature of Occupation - Production - Work Environment - Sex issue - Distribution of Workforce and Child Labour - Employment Size - Welfare of Workforce - Value of Output - Employment Intensity.

UNIT - V

Problems of Small Business : Managerial Expertise - Training - Credit Facilities - Marketing Problems, Raw Material - Labour - Transportation - storage, etc.

UNIT - VI

Small Business Promoting Institutions : Small Industries Development Organization (SIDO) - SISI - NSIC - NIESBUD - SIDBI - NISIET - National Productivity Council (NPC) - Incentives and facilities - Tax Holiday - Credit Policies.

References

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2. **Small Scale Industry - M. Laxmi Narasiah B. Duvana Margaret - Discovery Publishing House**
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Unit - I**Chapter - 1****ENTREPRENEURSHIP AND SMALL BUSINESS**

During the past three decades, most parts of the world have experienced the emergence of entrepreneurship development, as a means of rapid economic development. Today, the myth that entrepreneurs are born and not made seems to be slowly fading away and it is becoming true that systematically imparted entrepreneurship inputs can create entrepreneurs as well. What is crucial is that, the quality and quantity of entrepreneurship inputs that can accelerate the process of entrepreneurship development in a country.

ENTREPRENEURSHIP CONCEPTS

The concept of entrepreneurship and its theory have evolved over more than two centuries. The word 'entrepreneur' first appeared in French, in the early sixteenth century. It did not find any place in the early English economic thought. From Adam Smith to Marshall, the economists made no efforts to define or conclude entrepreneurship in their economic literature.

In the early eighteenth century, the French economist, Richard Cantillon, the first to introduce the term entrepreneur, defined it as an agent who purchased the means of production for combination into marketable products.

According to J.B. Say, an entrepreneur is the economic agent who unites all means of production, the labour force of one and the capital or land of the others and who finds in the value of the products which results from their employment, the reconstruction of the entire capital that he utilises and the value of wages, the interest and the rent which he pays as well as profit belonging to himself.

Hagge E.E., explains entrepreneur as an economic man, who tries to maximise his profit by innovations. Innovations involve problem solving and the entrepreneur gets satisfaction from using his capability in attracting problems.

In the words of Joesph A. Schumpeter, entrepreneur is basically an innovator, and innovator is one who introduces new combinations.

Peter F. Drucker defines an entrepreneur "as one who always searches for change, responds to it and exploits it as an opportunity".

The ILO describes entrepreneurs as people who have the ability to see and evaluate business opportunities, to gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.

Although there is no generally accepted definition or model of an entrepreneur, in simple words, entrepreneurship is the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, arranging labour and raw materials, finding a site, introducing a new technique and commodities and discovering new sources for the enterprise. Undertaking of an enterprise is thus entrepreneurship and the person is called an entrepreneur.

ENTREPRENEURIAL CHARACTERISTICS

Entrepreneur is a multi-dimensional personality and it is necessary to consider many factors and perspectives. The following are the main characteristics of an entrepreneur.

1. **Innovation** : Innovation refers to doing new things or doing of things that are already being done in a new way. Entrepreneurs as innovators develop new products, create new markets, apply new process of production, discover new and better sources of raw materials and develop a new and better form of industrial organisation.

2. ***Achievement orientation*** : It is the need to excel. Having a desire for success in competition with others or with a self-imposed standard of excellence. People with high achievement orientation will try to accomplish something new and try to involve themselves in long-term goals. They try to accomplish challenging tasks. They know their own strengths and weaknesses; the facilitating factors and constraints in the environment and the resources needed to accomplish their tasks.
3. ***Risk Taking*** : A risk situation occurs when an entrepreneur is required to make a choice between two or more alternatives, whose potential outcomes are not known and, must be evaluated in advance, with limited information. A risk situation involves potential gain and potential loss. Entrepreneurs are moderate risk takers. They enjoy the excitement of a challenge, but they do not gamble.
4. ***Self-confidence*** : An entrepreneur gets into business or industry with a high level of self confidence. He is able to evaluate his competencies and capabilities in a realistic manner. He can set realistic and challenging goals. He is confident of achieving these goals.
5. ***Optimism*** : An entrepreneur exhibits positive and optimistic attitudes towards untapped opportunities.
6. ***Creativity*** : Entrepreneurs are highly creative people. They always try to develop new products, process or markets. They are innovative, flexible and are willing to adopt a change.
7. ***Foresight*** : entrepreneurs have a great vision. They are future oriented and able to perceive the opportunities in the environment which other people are unable to see.

SMALL ENTREPRENEUR

An enterprise consists of people working together primarily for the purpose of making, selling and distributing a product or service. Small entrepreneurs are those who run industrial enterprises in the small scale sector. In every corner of the world, small entrepreneurs outnumber large entrepreneurs.

SMALL SCALE SECTOR

Small scale industries play an important role in individual economy of countries in the world. The definition of small scale enterprises has undergone several changes. Every Country has its own definition. According to the Committee of Economic Development (USA) a small business is one which possesses atleast 2 of the following 4 characteristics:

1. Management of the firm is independent. Usually, the managers are also the owners.
2. Capital is supplied and the ownership is held by an individual or a small group.
3. The area of operation is mainly local, with the workers and owners living in one home community. However, the markets need not be local.
4. The relative size of the firm within its industry must be small when compared with the biggest units in the field. These measures can be of sales volume, number of employees or other significant comparisons.

The criteria adopted by different countries are given below

Bases of Defining Small Business in Various Countries

Countries	Criterion
1. India, Pakistan, Indonesia	Investment in plant and machinery
2. USA and UK	Employment
3. Japan, Korea and Philippines	Investment and employment
4. China, UK (commercial)	Production / sales turnover
5. Korea (commerce)	Employment and sales turnover
6. Malaysia	Investment and sales turnover

DEFINITION OF SMALL BUSINESS IN INDIA

The definition of small business in India has changed over the years. A retrospective view of this changing definition since 1950 is given below.

1. A unit operating mainly with hired labour usually 10 to 50 hands (Fiscal Commission, 1950)
2. A unit employing less than 50 persons if using power and less than 100 persons without the use of power and with a capital investment not exceeding Rs.5 lakhs (Small Scale Industries Board, 1955).
3. An industrial unit with a capital investment of not more than Rs.5 lakhs irrespective of the number of persons employed (Ministry of Commerce and Industry, 1960).

4. An undertaking having a capital investment in plant and machinery of not more than Rs.7.5 lakhs and Rs.10 lakhs in case of ancillary units (Government of India, 1966)
5. An undertaking having a capital investment in plant and machinery of not more than Rs. 10 lakhs and Rs. 15 lakhs in case of ancillary units (Government of India 1975).
6. An undertaking having an investment in plant and machinery of not more than Rs.20 lakhs and not more than Rs. 25 lakhs in case of ancillary units (Government of India 1980)
7. An undertaking having an investment in plant and machinery of not more than Rs.35 lakhs and not more than Rs. 45 lakhs incase of ancillary units (Government of India 1985)
8. An undertaking having an investment in plant and machinery of not more than Rs. 60 lakhs and not more than Rs.75 lakhs incase of ancillary units (Government of India 1991)
9. An undertaking having an investment in plant and machinery of not more than Rs. 3 crores. (Government of India 1997) with effect from 21.12.1999, an industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs.1 core is called a small scale unit.

The small scale units differ from Large scale units in the following characteristics

Difference between Small and Large units.

Small Scale Units	Large Scale Units
1. Personal Character	Impersonal
2. Local area of operation	Wider area
3. Labour intensive	Capital intensive
4. Small fixed investment	Large investment
5. Decentralized location	Centralised location
6. Independent management	Divorce between ownership and management
7. Proprietorship and Partnership	Joint stock company
8. Small uneconomic size	Large economic size
9. Unorganised labour	Unionized labour
10. Limited scope for expansion	Economies of scale and great scope for expansion.

SCOPE AND TYPES OF SMALL BUSINESS

Small business covers a wide range of business activities. The range of products manufactured by small scale industries is very wide from baskets to precision electronic and optical instruments. The various forms of small business are :

- (i) **Small Scale Industries** : These are the industrial undertakings having investment in fixed assets in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis, not exceeding Rs. 1 crore.
- (ii) **Ancillary Industries** : These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or propose to engage in : (a) the manufacture of parts, components, sub-assemblies, tooling or intermediaries,

or (b) the rendering of services, supplying 50 percent of their production or services as the case may be to other units for production of other articles, provided that the small scale or ancillary undertakings referred to in (i) and (ii) above shall not be subsidiary of or owned or controlled by any other industrial undertaking.

(iii) Tiny Units : These refer to undertakings having fixed investment in plant and machinery not exceeding Rs.25 lakhs. These also include undertakings providing services such as laundry, xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc.

(iv) Small Scale Service & Business (Industry related) Enterprises (SSSBEs) : These mean enterprises engaged in personal or household services in rural areas and towns with population not exceeding 5 lakhs and having fixed investment in plant and machinery not exceeding Rs.5 lakhs.

(v) Household Industries : These cover artisans, skilled craftsmen and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products, electronic and electrical gadgets are some examples of these industries.

With the onset of liberalization & Globalisation, SSIs in India have not only to compete with imported commodities in the domestic market, but also acquire export competitiveness. This might require technological upgradation and modernization on a massive scale.

The many characteristics of small enterprises enhance their pivotal position in accelerating economic growth in countries, where, they are seriously being developed.

- Their flexibility makes them best suited in any business environment.
- Also, small enterprises have a better chance to carry out a number of innovations like combinations of new products, new materials, new methods of production, new markets, new sources of materials, new methods of production, new markets, new sources of materials and even new forms of organisation.
- Being change - susceptible and highly reactive to socio - economic influences on the outside, small enterprises can easily adapt measures that will ensure not only their own viability but also the growth of the economy in which they are situated.
- Being fairly labour-intensive, they provide an economic solution by creating employment and income opportunities in urban and rural areas at relatively low cost of capital investment.
- Decentralization and dispersal of industries into rural areas prevent the influx of job-seekers in cities and urbanizing centers, thus allowing for a more balanced growth of economy in the whole country.
- By using indigenous raw materials and the promotion of intermediate and capital goods, small enterprises can contribute to faster economic growth in a traditional economy.
- Being set up by individuals, they provide a productive outlet for expressing the entrepreneurial spirit of human resources.

The benefits of Small Scale Industries can therefore, be summarized as follows:

1. Utilising local resources
2. Creating jobs at relatively low capital cost (lower capital / labour ratio)
3. Diversifying industrial structure and foiling monopolies.
4. Providing a vehicle for introducing a more equitable income distribution.
5. Attracting and utilizing indigenous entrepreneurship
6. Developing a pool of skilled and semi-skilled workers as a basis for future industrial expansion.
7. Improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy.
8. Providing opportunities for developing and adapting appropriate technological and managerial approaches.
9. Increasing mobility for the improved development of natural resources
10. Adapting flexibility to market changes.

Importance of SSIs

The small scale sector has a high potential for providing employment, promoting entrepreneurship, and earning foreign exchange to the country.

The importance of SSIs is demonstrated by,

1. Small is beautiful as said by E.L. Schumacher
2. Innovative and productive
3. Individual tastes are identified and helps to provide personalized services to customers.
4. Symbols of national identity.
5. Always winner of the game

THE ROLE OF SMALL SCALE INDUSTRIES IN ENTREPRENEURSHIP DEVELOPMENT

The small scale industries of India have a decisive role to play in the entrepreneurship development of the country. By and large, small enterprises have certain definite advantages, which contribute to the economic well being of the nation. The Indian Punjab is a clearest example of how opportunities, for entrepreneurial carrier commensurate with the increasing number of small enterprises in the State.

Small enterprises serve as the seed bed of entrepreneurship due to their following peculiar features :

- (i) Small units create more self-employment opportunities with comparatively less capital investment.
- (ii) Small scale industries are usually based on local resources.
- (iii) These industries can be located any where.
- (iv) These units give quick return and have a shorter gestation period.

- (v) These units cause relatively less environmental pollution and disruption.
- (vi) The firms are viewed favourably because these lead to equitable distribution of income and wealth.
- (vii) These units facilitates industrial dispersal and avoid problems of unplanned urbanization.
- (viii) Small firms require simple technology and low managerial skills.
- (ix) These units help in better utilization of local resources and skills which might otherwise remain unutilized.
- (x) These units help to maintain and retain traditional skills and handicrafts.
- (xi) Small units assist large and medium industries by acting as ancillaries.

ROLE OF SMALL BUSINESS IN INDIAN ECONOMY

Small Scale industries play a very vital role in India's economy in the following ways:

1. **Employment** : Small scale industries use labour intensive techniques and therefore provide employment on a large scale. For every Rs.1 lakh of fixed investment, small scale sector provides employment to 26 persons as against 4 persons in the large scale sector. Small scale industries provide self-employment to artisans, technically qualified persons and professionals. Small scale sector accounts for 75 per cent of the total

employment in the industrial sector. More than 18 million persons are employed in small scale units in India.

These industries also offer employment to farmers when they are idle. The healthy growth of small scale industries can be an effective solution to the unemployment problem in India.

2. *Optimisation of Capital* : Small scale firms require less capital per unit of output and provide quick returns on investment due to shorter gestation period. In a capital scarce economy like India, small scale sector can become a stabilizing force by providing high output capital ratio as well as high employment capital ratio. Small scale units help to mobilize small and scattered savings and channelise them into industrial activities.
3. *Balanced regional development* : Small scale industries promote decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. Dispersal of small industries in rural and semi urban areas is the only means of balanced industrialization of all parts of the country. Small scale industries help to reduce the problems of congestion, slums and pollution in cities by providing employment and incomes in rural areas. They help to improve the standard of living on suburban and rural areas.
4. *Mobilisation of local resources* : Small scale industries help to mobilize and utilise local resources like small savings, entrepreneurial talent, etc., which might otherwise remain idle and unutilised. They help to perfect and promote traditional family skills and handicrafts. These industries facilitate the

growth of local entrepreneurs and self-employed professionals in small towns and villages.

5. *Export promotion* : Small scale industries help in reducing pressure on the country's balance of payments in two ways. First, they do not require imports of sophisticated machinery or raw materials. They are now producing electro-medical equipment, drugs, etc, which were being imported earlier. Secondly, small scale industries earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector. A significant feature has been the rapid growth in the export of non-traditional items. Small scale sector contributes about 35 percent of India's total exports and 90 percent of non-traditional exports.
6. *Consumer surplus* : Small scale industries now produce a wide range of mass consumption items. About 7,500 products are being manufactured in the small scale sector. By providing goods of daily use on a large-scale, small scale industries serve as an anti-inflationary force. About one half of the output of manufacturing sector in India comes from small scale and village industries.
7. *Feeder to large scale industries* : Small scale industries play a complementary role to large scale sector. They provide parts, components, accessories to large scale industries. They serve as ancillaries to large units.
8. *Social advantage* : Small scale industries contribute towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honourable and independent living to people with limited

resources. They facilitate wider participation of public in the process of development and there by serve the cause of democracy and self-government.

9. **Share in Industrial Production :** Small scale industries contribute more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector. These include several items of consumption such as television sets, hearing aids and industrial items.

10. **Development of Entrepreneurship :** Small scale units have helped to develop a class of entrepreneurs. These units facilitate self-employment and spirit of self-reliance in the society. The development of small scale industries contributes to increase in per capita income in economic development in various ways. It generates immediate employment opportunities with relatively low capital investment, makes effective utilization of untapped local resources, facilitates development of backward areas and weaker sections of society.

Questions :

1. Who is an entrepreneurs? What are the characteristics of an entrepreneur?
2. What are the features of small business?
3. Explain the role of small business in the development of Indian economy.

Chapter - 2

DEVELOPMENT OF SSI IN INDIA

The development of small scale industry in India has fairly long history. This development has been the result of a series of planned efforts in the form of policy formulations, economic plans and special assistance programmes undertaken by the government.

The development of small scale entrepreneurs in India dates back to Gandhian period. It was a part of Gandhian philosophy that small enterprises should thrive particularly in rural areas making the rural inhabitants self-sufficient. A number of programmes for the development and growth of entrepreneurship were pursued through the five year plans. Though the importance of small scale entrepreneurs was recognised in the First five year plan (1951-56), it was only in the second five year plan (1956-61), that really initiated the development of strategy in the field of small entrepreneurial development. like the establishment of nation-wide industrial extension services and the National Small Industries Corporation (NSIC). In the third Five year plan (1961-66), the emphasis shifted to the diversification of production in the small scale sector. Besides this, reservation of items to be produced exclusively in the small scale sector was made. In the fourth plan (1969-74) period, the major commercial banks of the country were nationalized to cater to the credit needs of the small scale sector and concerted efforts were made only in the fifth plan period (1974 - 79). The industrial policy statement of 1977 aims at dispersal of cottage and small industries in rural areas and small towns. The reservation items for small sector increased and the concept of "tiny sector", the smallest of the small sector was introduced. District industries centres were set up for the promotion of small scale industries to provide all services under a single roof and support required by the entrepreneurs in the country.

POLICY MEASURES OF GOVERNMENT FOR PROMOTING SSIs

The role of small scale industries is one of the most important feature of our planned economic development. Small scale sector has continued to play a vital role in the fulfillment of socio-economic objectives. This has found clear expression into the successive plans and also the new industrial policy announced by Union industry in parliament on 31st May 1990.

During the first 5 year plan (1951-52 to 1955-56), attempts were made to set up an organizational and policy base which could help to rehabilitate such industries. About Rs.30 crores were allocated for the development of village and small scale industries and six all India Boards were set up or reconstituted during this plan period.

These were :

1. The All-India Handloom Board set up in October 1952.
2. The All India Handicrafts Board, constituted in November 1952.
3. The Silk Board, constituted in 1949 and reorganized in 1952.
4. The Coir Board, set up in July 1954.
5. The Small Scale Industries Board, set up in November 1954.
6. The All India Khadi and Village Industries Board, originally set up in February 1953, and reorganized as an autonomous commission in April 1951.

Industries (Development and Regulation) Amendment Ordinance 1984

One of the important policy measures adopted by the government to improve the competitive strength of small scale industry is to reserve specified items for exclusive production by small scale industrial undertakings. Such reservation is being made since 1970. However,

doubts were raised about the power of the government to make such reservations. With a view to remove this uncertainty, an ordinance was issued on January 12, 1984, to amend the Industries (Development and Regulation) Act, 1951 to provide for statutory reservation of specific items for exclusive production by small scale industrial undertakings. The number of items for exclusive production in the small scale sector, as on 31st December 1986 was 863 and at present it is 322. Entry of large and medium scale unit is prohibited in the reserved areas except on condition that the concerned unit would export a minimum of 75% of its production.

Industrial Policy for Small Scale Industries

The primary objective of the small scale industrial policy of the Government of India during the nineties was to impart vitality and growth – impetus to the sector, to enable it to contribute its might fully to the economy, particularly, in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further, efforts have been made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential and repositing greater faith in small and young entrepreneurs. All statutes, regulations and procedures have been reviewed and modified to ensure that their operation do not militate against the interests of the small and village enterprises.

A new industrial policy for SSI units & tiny sector was announced by the government on August 6, 1991. A separate statement of small scale industries widened the definition of such industries with a view to enabling them to avail of special facilities and concessions available to small scale units. Investment ceiling was raised in respect of both ancillary units and export oriented units (Rs.75 lakhs in plant & machinery) and tiny sector (Rs.5 lakhs in plant and machinery). A separate package for the promotion of Tiny Enterprises was introduced which constituted the main thrust of Government's new policy.

Service sub-sector was recognized as a fast growing area and the need to provide support to it in view of its recognized potential for employment had been felt. Hence, all industry - related service and business enterprises, irrespective of their location have been recognized as small scale industries and their investment ceiling correspond to those of tiny enterprises.

While the small scale sector (other than tiny enterprises) are entitled to one - time benefits (like preference in land allocation / power connection, access to facilities for skill / technology up graduation), the Tiny Enterprises are also eligible for additional support on a continuing basis including, easier access to institutional finance, priority in the government purchase programme and relaxation from certain provisions of labour laws.

Financial Support Measures

The most important feature of the new policy is the 4-point programme announced to provide financial support to small scale industries sector. While promising to set up an agency to monitor and enhance the credit demand of small scale units, it has been decided to allow equity participation by other industrial undertakings in the small scale industry. The policy also for the first poised to meet 100% credit demand of the small & tiny industries.

The highlights of the new small scale industrial policy are:

1. Legislation to ensure payment of SSI bills
2. Act to limit the new & non-active partner's liability to the capital invested
3. A cell to be created to meet fully the credit demands of the SSIs
4. Permission to other units to invest up to 24% in SSIs

5. Launch of "Factoring services" by SIDBI
6. "Tiny Sector" investment limit raised to Rs.5 lakhs
7. Relaxation to the tiny sector from certain unspecified laws
8. Services sector to be recognized as tiny sector
9. Priority to SSIs and tiny units in allocation of indigenous raw materials
10. PSUs & NSIC to help market products through "Consortia approach", both domestically and internationally
11. Package for handloom & handicraft sector
12. Janatha cloth scheme to be replaced by a new scheme which will provide funds for loom modernization
13. Compulsory quality control for products that pose risks to health and life
14. Investment limit of ancillary units and export - oriented units raised to 75 lakhs.

IMPACT OF UNION BUDGETS ON SSIs

Besides the financial assistance & supports, the union government has been announcing certain provisions in its budgets for the benefit of small scale industries. Some of such provisions are given below.

Union Budget (1994 - 95)

1. The requirement of registration with Directorate of Industries in the concerned State or Development Commissioner of small scale industries for availing exceptions have been abolished.

2. The brand name provision in the general SSI scheme has been amended to prevent large companies registering in the name of SSI units and obtaining the goods manufactured from a number of SSI units, to help small producers to promote their own brands.
3. They are not required to maintain any record. Small and tiny units with clearance upto Rs.30 lakhs are not required to file any formal declaration with the Central excise department.
4. The number of end use notification and rate categories were sharply reduced for both customs and excise duties.
5. Separate gate passes or other documents are also not required for clearance for such goods. When the exemption limit of Rs.30 lakhs is crossed, the duty can be paid on the basis of bills or challans or invoices.
6. Monthly returns have been replaced by simple quarterly statements to be filed with excise department.
7. SSI Units have been given option to pay normal excise duty to enable them to avail the benefit of modvat credit.

In April 1994, the Union Government approved a scheme for Integrated Infrastructure Development (IID) for small industries in rural and backward areas. It entails setting up of about 50 IID centres at the cost of Rs.250 crores, with the following objectives (Area covered under the scheme of Growth Centres are excluded).

1. Promoting clusters of small scale & tiny units to create employment opportunities & develop exports.
2. Encouraging strong linkage between agriculture and Industry.
3. Providing common service facilities and technological back up services in the selected centres.

4. Upgrading infrastructure such as power, water, communications

Union Budget 1995 - 96

1. Prior to the Budget, units whose turnover of dutiable goods did not exceed Rs.2 crores were eligible for the concessional rate of duty (excise) under the general SSI exemption scheme. The eligibility limit for availing of the SSI exemption scheme has been raised to Rs.3 crores.
2. From May 1, 1995 manufacturers need not follow the system of filing of classification list before clearing goods from the factory.
3. Relaxation in Modvat rules.
4. For widely consumed items, excise duty exempted further (for metal containers made without power, HDPE and polypropylene monofilaments used for making fishing net and mosquito nets, etc.)
5. Import duties on items like ferrous and non-ferrous metals have been reduced from 50-60% to 40%.

Union budget 1998-99 :

1. Special measures were announced to meet credit problems of SSIs.
2. SIDBI was delinked from IDBI and Credit procedures were simplified.

Union budget 1999-2000 :

1. The limit of the composite loan scheme of SIDBI and commercial banks increased to Rs. 5 lakh from Rs. 2 lakh.

2. Annual turnover limit of SSI units for computation of working capital limit raised to Rs. 5 crore from Rs. 4 crore.
3. New credit insurance scheme launched to aid SSI units.
4. Non-Banking Financial companies and other financing intermediaries treated as priority sector for bank lending to ensure greater credit flow to tiny sector.

Union budget 2000-01

1. The limit of collateral free loan for tiny sector increased from Rs. 1 lakh to Rs. 5 Lakh.
2. Composite loan limit of SIDBI and banks for small borrowers raised from Rs. 5 lakh to Rs. 10 lakh.
3. Rs. 100 crore provided for credit guarantee scheme for SSIs through SIDBI to cover loans up to Rs. 10 lakhs.
4. Khadhi & village industries commission introduced a common brand name for its products.

Union budget 2001-02 :

1. 14 items related to leather goods, shoes & toys were derecognised.
2. The SSI exemption limit made to Rs. 1 crore from sep.1, 2000.
3. Loan to the extent of Rs. 5,000 crores sanctioned for the SSI sector over five years under credit linked capital subsidy scheme for technology upgradation.

Union budget 2002-03 :

1. Reservations related to various agricultural equipment items removed.
2. The limit for composite loan increased from Rs. 2 lakh to Rs. 5 lakh. The exemption limit for collateral security increased from

Rs. 25,000 to 5 lakh. The project cost limit under the National Equality Fund increased from Rs. 25 lakh to Rs. 50 lakh.

3. Over 50 items of knitwear, certain agricultural inputs, auto components, some chemicals & drugs deserved.

Other Policy Measures

Government's policy initiatives in recent times have vastly improved the policy environment. The statement on Industrial Policy announced on 24th July 91 and the policy measures for promoting and strengthening small, tiny and village enterprises announced on 6th August 1991 have set the tone of new era of Small Scale Industrial Development.

It has also been decided to widen the scope of the Nation Equity fund Scheme to cover projects upto Rs. 10 lakhs for equity support (up to 15 per cent). Single Window Loan Scheme has been enlarged to cover projects up to Rs. 20 lakhs with working capital margin up to Rs. 10 lakhs, composite loans under Single Window Scheme, now available only through State Financial Corporations (SFCs) and twin function State Small Industries Development Corporation (SSIDs) would also be channelised through commercial banks. This would facilitate access to a larger number of entrepreneurs.

To provide access to the capital market and too encourage modernization and technological upgradation, it has been decided to allow equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total share holding. This would also provide a powerful boost to ancillarisation and sub-contracting, leading to expansion of employment opportunities.

A beginning has been made towards solving the problems of delayed payments to small industries by setting up 'factoring' services through Small Industries Development Bank of India (SIDBI). Net-

work of such services would be set up throughout the country and operated through commercial banks.

National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and SSIDCs would be established.

Though the small scale sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognized as the nodal agency to support the small scale industries in export promotion.

In general, the policy measures of the government have resulted in the following:

1. Procedures to be followed by small scale industries have been simplified, bureaucratic controls effectively reduced, and unnecessary interference have been eliminated to enable the entrepreneurs to concentrate on production and marketing functions.
2. Steps have been taken by the government to ensure adequate and equitable distribution of indigenous and imported raw materials. The policies have been designed in such way that, they do not militate against entry of new units. Based on the capacity needs, tiny / small units are being given priority in allocation of indigenous raw materials.
3. A Technology Development Cell (TDC) has been set up in the Small Industries Development Organization (SIDO), which provide technology inputs to improve productivity and competitiveness of the products of small scale sector. The TDC, co-ordinates the activities of the Tool Rooms, Process -cum- Product Development Centres (PPDC'S), existing as well as, to be established under SIDO, besides interacting with the

industrial research and development organization to achieve its objectives.

4. The Government encourage industries associations to conduct training programmes for EDP trainers and motivators in order to expand the entrepreneurship development programme.
5. The definition of "Women Enterprises" has been simplified. The earlier stipulation regarding employment of majority of women workers has been dispensed with and units in which women entrepreneurs have a majority share holding and management control are defined as "Women Enterprises".
6. A reoriented programme of modernization and technology up gradation aimed at improving productivity, efficiency and cost effectiveness have been pursued. Specific industries in large concentrations / clusters are being identified for studies in conjunction with SIDBI and other banks. Such studies are expected to establish commercial viability of modernization prescriptions. Financial support for modernization of these industries is also provided by the Government, on priority basis.
7. Government recognizes the need to widen and deepen complementarity in production programmes of large / medium and small industrial sectors. Parts, components, sub-assemblies, etc. required by large public / private sector undertaking have been encouraged for production in a techno-economically viable manner through small scale ancillary units. Industry associations have been encouraged to establish sub-contracting exchange, in addition to strengthening the existing ones under the SIDO. Emphasis is also being laid on promotion of a viable and competitive 'component' market.
8. Industry associations have been encouraged and supported to establish quality counselling and common testing facilities.

Technology information centers to provide updated knowledge on technology have been established. Indian Institutes of Technology (IITs) and selected Regional / other Engineering Colleges will serve as Technological information, design and development centers in their respective command areas.

9. In order to tap the large export potential, the SIDO has been recognized as the Nodal agency to support the small scale industries. An Export Development Centre has been set up in SIDO to serve the small scale industries through its network of field offices to further augment export activities of this sector.
10. The training programme of multi-disciplinary 'barefoot' managers to suit the special requirements of the small scale sector introduced by the government is expected to create additional employment opportunities.

GROWTH OF SMALL BUSINESS

As a result of the policy initiatives, the growth rate of SSI sector during 1992-93 and 1993-94 were quite perceptible. The value of production at 1994-95 prices was Rs.2,93,990 crores during 1994-95. It increased to Rs.3,16,421 crores in 1995-96. In so far as employment is concerned, it was 146.56 lakhs in 1994-95 and 152.61 lakhs in 1995-96. The annual growth rates of output were 10.1% and 10.3% during 1994-95 and 1995-96 respectively. The employment growth rates were 5.2% in 1994-95 and 4.1% during 1995-96. The exports increased from 29,068 crores in 1994-95 to Rs.34,665 crores in 1995-96. In all these areas the achievements had been much higher than the targets set for the respective years of the 8th Five Year Plan.

Performance of SSIs in the Reform Period

On the ground, for small industries, it meant growth of business, considerable increase in competition and radical increase of both

opportunities and threats. Growth of the sector is vindicated by the fact that during the entire reform period, SSIs out performed the rest of the manufacturing sector. Whereas the average rate of growth of manufacturing sector during 1991-92 to 1999-2000 period had been around 6%, SSIs recorded 8% growth. At the same time, whereas number of non-SSI sick units during 1991 to 1999 increased by 19.4%, the increase of SSIs during the corresponding period had been almost double i.e. 38%.

Further, the reform process also saw the increase in SSIs' participation in international trade. During 1990-91 the SSI exports as percentage of their production and percentage to total Indian exports had been 6.2% and 29.7% respectively. The corresponding figures for the year 1999-2000 had been 9.2% and 35%⁴. The developments are very important in view of the fact that from 1973-74 to 1989-90, the percentage of SSI exports to their total production had hovered around 5.54%.

Facilitated by real export thrust of the government in the initial reform period and substantial liberalization of foreign exchange regime, the entrepreneurs participated in international trade which led to diversification of markets, identification of both more growth opportunities and technology gaps. The period highlights the Schumpeterian principles of creative destruction as, on one hand, a large number of SSIs either closed shops or went down hill, on the other hand, if not greater, an equally large number of SSIs made substantial investment in the upgradation of their plant and machinery and streamlining their production processes.

The growth in the number of SSI units granted permission and registration by the state/union territory directorates from 1995-96 to 1999-2000 in India is shown in the following table.

Sl.No.	Name of the State	Cumulative Number of SSI Units granted permanent Registration upto				
	State/Union Territory	1995-96	1996-97	1997-98	1998-99	1999-2k
01.	Andhra pradesh	112916	117132	121039	1249850	199-2k
02.	Assam	19242	20721	21954	23136	24109
03.	Bihar	101221	108148	114296	119107	123933 P
04.	Gujarat	129455	141951	153497	164785	174899
05.	Haryana	94462	98455	63623	53321	54375
06.	Himachal Pradesh	14015	14593	15232	15941	16602
07.	Jammu & Kashmir	25165	26363	28471	29387	30667 P
08.	Karnataka	115353	124504	143073	150675	159944
09.	Kerala	133114	148275	166484	184166	202325
10.	Madhya Pradesh	233225	243481	256849	268741	277804 P
11.	Maharashtra	98144	111129	123856	135016	143457
12.	Manipur	4928	5157	5314	5439	5588
13.	Meghalaya	2005	2166	2323	2514	2711
14.	Nagaland	741	757	782	813	1059
15.	Orissa	16623	17173	17931	18732	19513
16.	Punjab	145471	147563	149405	151180	152768
17.	Rajasthan	71479	74450	77047	80229	83651
18.	Tamilnadu	202210	228936	257079	284943	313861
19.	Tripura	5833	5901	5946	6091	6058

20.	Uttar Pradesh	302557	323475	341788	361033	382027 P
21.	West Bengal	145713	147462	149148	150327	151340
22.	Sikkim	275	296	305	312	330 P
23.	Andaman & Nicobar	1038	1071	1116	1151	1180
24.	Arunachal Pradesh	766	926	945	959	971
25.	Chandigarh	2880	2952	2965	3007	3042
26.	Dadra & Nagar Havel	1409	454	618	870	978
27.	Delhi	25174	25284	25303	25306	25342
28.	Goa	5118	5278	5488	5761	5921
29.	Lakshadweep	47	51	58	63	72
30.	Minorum	3018	3515	3702	4028	4413
31.	Pondicherry	4209	4255	4484	4722	4873
32.	Daman & Diu	693	920	1135	1455	1507
ALL-INDIA TOTAL:		2017499	2152794	2261256	2378070	2503641

Source : Ministry of SSIs, Govt. of India

The small-scale industrial sector which plays a pivotal role in the Indian economy in terms of employment and economic growth has recorded a high rate of growth since independence in spite of stiff-competition from the large sector and not so-encouraging support from the Government. This is evidenced by the number of registered units which went up from 16,000 in 1950 to 36,000 units in 1961, to 8,53,000 lakhs units in 1985-86, to 20,17,499 in 1995-96 and to 25,03,641 in

1999-2000. Besides this, there are a large number of unregistered units in the small-scale sector.

Output of the Industries

From 1973-74 to 2002-03, in a span of 30 years, employment in the small scale sector has grown from 3.97 million to 19.9 million and the output increased from Rs.7,200 crores to Rs.76,20,213 crores.

The time series data given below gives the statistics of total number of SSI units, their fixed investment (at current prices), production, employment and exports.

Time Series data for SSIs in India

Year	No. of units (millions)	Fixed Investment (at current prices) (Rs.billion)	Production (at current prices) (Rs.Bn.)	Employment Nos. in million	Export (Rs. billion)
1973-74	0.416	22.96	72.0	3.97	3.93
1974-75	0.498	26.97	92.0	4.04	5.41
1975-76	0.546	32.04	110.0	4.59	5.32
1976-77	0.592	35.53	124.0	4.98	7.66
1977-78	0.67	39.59	143.0	5.40	8.45
1978-79	0.734	44.31	157.0	6.38	10.69
1979-80	0.805	55.40	216.35	6.70	12.26
1980-81	0.874	58.50	280.6	7.10	16.43
1981-82	0.962	62.80	326.0	7.50	20.71
1982-83	1.059	68.00	350.0	7.90	20.45
1983-84	1.155	73.60	416.2	8.42	21.64

1984-85	1.24	83.80	505.2	9.00	25.41
1985-86	1.353	95.85	612.28	9.60	27.69
1986-87	1.462	108.81	722.5	10.14	36.43
1987-88	1.583	126.10	873.0	10.70	43.72
1988-89	1.712	152.79	1064.0	11.0	54.89
1989-90	1.823	N.A.	1323.2	11.96	76.25
1990-91	1.948	N.A.	1553.4	12.53	96.64
1991-92	2.082	N.A.	1786.99	12.98	138.83
1992-93	2.246	N.A.	2093.0	13.406	177.84
1993-94	2.388	35.376	2416.48	13.938	253.07
1994-95	2.571	40.799	2988.86	14.656	290.68
1995-96	2.658	49.620	3626.56	15.261	364.7
1996-97	2.803	54.698	4118.58	16.0	392.48
1997-98	2.944	60.549	4626.41	16.72	444.42
1998-99	3.08	86.106	5206.5	17.158	489.79
1999-00	3.212	72.633	5728.87	17.85	542.00
2000-01	3.312	79.703	6390.24	18.564	697.97
2001-02	3.442	84.329	6903.16	19.223	712.44
2002-03	3.572	90.450	7420.21	19.965	N.A.

Source : Development Commissioner (SSI), Ministry of Small Scale Industries, Government of India.

Economic indicators of SSI India at a glance

SSIs in india

Trends in Growth SSI & Industrial Sector

Trends in Growth of Employment in SSI & industrial Sector

SSIs IN INDIA	
• Estimated No. of Units	3.57 Million
• Employment	19.96 Million
• Share in Industrial Value Added	39%
• Share in Total Exports	45%
Direct	34%
Overall	
• Total Number of items produced	Over 7500
• Number of Reserved items produced	675S

The table indicates that as on 2002-03, there are an estimated 3.57 million smallscale units in the country contributing 45% to the country's exports, directly.

TRENDS IN GROWTH OF SSI & INDUSTRIAL SECTOR (IN %)		
Year	SSI Sector	Industrial Sector
1991-92	3.1	0.6
1992-93	5.6	2.3
1993-94	7.1	6.0
1994-95	10.1	9.4
1995-96	11.4	12.1
1996-97	11.3	7.1
1997-98	8.43	5.8
1998-99	7.7	4.0
1999-2000	8.16	6.5

There growth of SSIs when compared to the over all industrial growth is 8.16%.

TRENDS IN GROWTH OF EMPLOYMENT IN SSI & INDUSTRIAL SECTOR (in %)			
Period	GDP Growth per annum	Increase in jobs per annum	
		Organised Sector including Government	SSI Sector
1980-1990	5.7%	1.59%	6.7%
1991-1997	5.7%	0.86%	3.5%

1980 - 1997	
Organised Sector	53.66 lakh new jobs
SSI Sector	80.00 lakh new jobs

The average annual growth rate of employment in the small-scale sector for the year 1980-81 to 1991-97 works out to be 5.8 percent and that of production to be 18.6 percent. At 1981-82 prices, production of the small-scale sector grew from Rs. 28,060 crores in 1980-81 to Rs 7,42,021 crores in 2002-03.

Exports

Substantial increase in exports were observed in the case of ready made garments, canned and processed fish, leather sandals and chappals. food products, hosiery and marine products etc. The value of exports increased to Rs. 1,643 crores in 1980-81 and to a record-high figure of Rs. 36,470 crores in 1995-96 and 71,244 crores in 2001-02. A very

significant feature of exports from the small-sector is their share in non-traditional exports. The share of exports from the small-scale sector represents about 34 percent of total exports in 1995-96 and 2002-3.

An important feature of small units is that a good percentage of them may be bogus units. The 1972 Census revealed that whereas there were 2.58 lakh small-scale units on the registers of directorates of industries, the actual number in operation was only 1.4 lakh units. The All India Report on the census of small-scale industrial units, therefore, concluded : "The difference between the figures conveying cumulative totals and working units spread a notion that nearly 50 percent of the units in the small-scale sector were bogus. "The 1987-88 census estimated that nearly 37 percent of the units were either closed or non-traceable. Another important aspect of small industrial units is the high incidence of sickness. Many of them close down for want of working capital.

CLUSTER DEVELOPMENT IN INDIA

With a contribution of 40% to the country's industrial output and 35% to direct exports, the Small-Scale Industry (SSI) sector has achieved significant milestones for the industrial development of India. Within the SSI sector, an important role is played by the numerous clusters that have been in existence for decades and sometimes even for centuries. According to a UNIDO survey of Indian SSI clusters undertaken in 1996, there are 350 SSI clusters and approximately 2000 rural and artisan based clusters in India. It is estimated that these clusters contribute 60% of the manufactured exports from India. Among the larger clusters, it is worth mentioning those of :

- Panipat accounting for 75% of the total blankets produced in the country;
- Tirupur, which is responsible for 80% of the country's cotton hosiery exports;

- Agra with 800 registered and 6,000 unregistered small scale units making approximately 1,50,000 pairs of shoes per day with a daily production value of 1.3 million dollars and exports worth US \$ 60 million per year.
- Ludhiana, a city that is well known as the Manchester of India, which alone contributes 95% of the country's woollen kitwear, 85% of the country's sewing machines and 60% of the nation's bicycle and bicycle parts.
- Finally, the world famous cluster of Bangalore, operating in the software sector, deserves an explicit reference.

Despite such achievements, the majority of the Indian SSI clusters share significant constraints like technological obsolescence, relatively poor product quality, information deficiencies, poor market linkages and inadequate management systems. Moreover, with the Indian economy on the path of liberalization, all SSI clusters (even the best performing ones) are increasingly feeling the competitive pressures coming from the international markets.

UNIDO Clusters Development in India

Currently, UNIDO is implementing a project in India with the aim of developing capabilities at both local and the national levels so as to promote SSI networking and cluster development. This is done by:

- Assessing the competitiveness and organisation of SSI clusters
- Assisting the cluster's actors (suppliers of raw materials, plant & machinery, buyers of SSI goods and services, testing laboratories and research agencies, industrial associations training institutions, local government, financial institutions) in developing a common vision of what their cluster can achieve in national as well as international markets.

- Building up (through training, workshops and study tours), the capacity of cluster actors to implement such a vision.
- Providing advisory services at the policy level.

The project is implemented through a Focal Point based in New Delhi, currently comprising of four national consultants. These consultants have been trained by UNIDO in the principles of cluster restructuring and networking. At the cluster level, the Focal Point forges working partnerships with one or more institutions (NGOs, producers' consortia/associations, providers of business development services). This is done to facilitate the implementation of various initiatives and to pass on the competence acquired as a result of UNIDO training and hands-on experience gained in the pilot cluster. The programme also draws strength through collaborative support from national developmental institutions like Small Industries Development Bank of India (SIDBI) and more recently office of the Development Commissioner Small Scale Industry (DCSSI).

The implementation of the programme is monitored by a Steering Committee (chaired by Development Commissioner, Small Scale Scale Industries th Ministry of Small Scale Industries), whose task is also to strengthen the synergy between this programme and other Government initiatives aimed at the development of small-scale enterprises.

Questions

1. Trace the development of SSIs in India.
2. What are the policy measures taken by the government to promote SSIs in India.
3. What are the budgetary initiatives taken by the union government to promote SSIs in the country.
3. Explain the growth of SSIs in India.
4. What is a 'Cluster'? Comment on 'Cluster Development' in India.

UNIT - II**Chapter - 3****INCENTIVES AND SCHEMES**

Small business has been considered as the seed bed of entrepreneurship. The government of India has given small enterprises an important place in the framework of Indian economic planning for ideological as well as economic reasons. As a result, small sector has achieved an impressive growth in the number of units over the period.

MEANING OF INCENTIVES AND SUBSIDY

The term "incentive" is a general one and includes concessions, subsidies and bounties. 'Subsidy' denotes a single lump sum which is given by a government to an industry. It is granted to an industry which is considered essential in the national interest. The term 'bounty' denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in a nation or in a foreign market. It is given in proportion to its output. Bounty confers benefits on a particular industry, while a subsidy is given in the interest of the nation.

These subsidies and incentives offer the following advantages:

- (a) They act as a motivational force which makes the prospective entrepreneurs to enter into manufacturing line.
- (b) They encourage the entrepreneurs to start industries in backward areas.
- (c) By providing subsidies and incentives the Government can
 - (i) Bring industrial development uniformly in all regions

- (ii) Develop more new entrepreneurs which leads to entrepreneurial development
- (iii) Increase the ability of entrepreneurs to face competition successfully
- (iv) Reduce the overall problems of small scale entrepreneurs.

NEED FOR INCENTIVES

1. To remove regional disparities in development. While developed regions in a country are over crowded with industrial and business activities, the backward areas remain ignored for want of facilities for industrial development. Incentives are used as baits to lure industrialists to locate their units overlooking such deficiencies. In the long run the backward areas become developed and regional imbalances are corrected. Such a development may lead to the effective utilisation of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

2. To promote entrepreneurship and strengthen the entrepreneurial base in the economy. The new entrepreneurs may face a number of problems on account of inadequate infrastructure facilities and other supporting services such as market assistance, technical training and consultancy and other institutional services. All these problems may demotivate them. The various incentives normally tend to mitigate some or all of the problems by several means. Industrial estates, growth centres, power tariff concessions, capital investment subsidies which are aimed at encouraging entrepreneurs to take up new ventures without much reluctance.

3. To provide competitive strength, survival and growth. While some incentives are available at the time of promotion of industrial units, several other incentives are made available over a long period. Reservation of products to small units, price preferences, concessional

finance, etc., contribute towards the competitive strength, survival and growth of certain industrial units.

4. *To generate more employment and remove under-employment and unemployment.* The proper use of incentives and subsidies will generate more employment by accelerating the industrial growth. Market adjustments and external economics play a significant role in economic development. Entrepreneurs will move from developed to backward areas to start more number of units. This will create more number of jobs which will help to reduce the problems of unemployment and under-employment.

PROBLEMS OF INCENTIVES

1. The antagonists argue that the incentive schemes may deteriorate into useless tax-give away schemes if they are not implemented properly.
2. Empirical studies reveal that the incentive schemes are being highly misused rather than properly used. Some of the units are located in backward areas with a view to mainly avail the subsidies and concessions. The real objective of providing incentives is hardly achieved.
3. Favouritism and corruption have crept into the administrative machinery that have caused much financial strain on the exchequer.

SCHEMES OF INCENTIVES IN OPERATION

Different incentive schemes applicable to the industrial sector in India are in operation. These schemes are offered by Central and State Governments including Union Territories. The list of incentives offered by either of both the governments are listed below:-

- (i) Export/Import subsidies and bounties

- (ii) Interest free loans
- (iii) Subsidy for R&D works
- (iv) Capital investment subsidy
- (v) Transport subsidy
- (vi) Interest subsidy
- (vii) Subsidy for power generation
- (viii) Exemption from property tax.
- (ix) Subsidy to artisans and traditional industries including handlooms
- (x) Incentives to non-resident Indians
- (xi) Special incentives to women entrepreneurs
- (xii) Exemption from income tax
- (xiii) Interest free sales tax loan
- (xiv) Sales tax exemptions
- (xv) Subsidy for buying test equipment
- (xvi) Subsidy for industrial housing
- (xvii) Land and building at concessional rates
- (xviii) Price preference to SSI units
- (xix) Subsidy/ Assistance for technical consultancy
- (xx) Exemption from stamp duty
- (xxi) Concessional water
- (xxii) Provision for seed capital
- (xxiii) Allotment of developed/constructed sheds
- (xxiv) Allotment of controlled or subsidised raw material

- (xxv) Subsidising the cost of market studies/feasibility studies or reports.

INCENTIVES UNDER THE LICENSING REGULATIONS

When the controls dominate, a relaxation of the control itself is a significant incentive. For instance, a government notification states that the Central Government is of the opinion that directions for a further positive production orientations are to be given to the economy to increase production, by removing all constraints to the maximum extent possible. Now, therefore, in exercise of powers conferred by Section 29 (B)(i) of the Industries (Development and Regulation) Act, 1951, the Central Government hereby exempts all undertakings registered under the said Act from the operation of Section 13(i) (d). "Such exemptions are quite many and resorted to frequently."

INCENTIVES FOR DEVELOPMENT OF INDUSTRIES IN BACKWARD AREAS

As a part of the measures to ensure balanced regional development, Government of India have announced a number of concessions and facilities for industries established in selected backward districts/areas from time to time. The Central Government has declared 247 districts (covering about 70% of the areas in the country) as backward and eligible for the subsidies. Many State Governments have added to this list for the purpose of State level subsidies. The programme of assistance drawn up for setting up industries in the selected backward area/district is briefly indicated below:

(i) *Concessional finance*: All India financial institutions namely, Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI), extend financial assistance on concessional terms to all, new and existing industrial projects having expansion schemes irrespective of the project costs, located in the 247 districts

selected by the government. The concessions given by these financial institutions are in the form of lower interest rate, viz., 9.5% p.a. against the normal rate of 11%, a reduced commitment charge of 0.5% (which could be waived in exceptional cases), lower underwriting commission of 1.25% and 0.75% for shares and debentures respectively, initial moratorium period upto five years, longer amortisations of 15 to 20 years and participation in the risk capital on selective basis. Besides these, the IDBI follows a flexible attitude in respect of promoter's contribution, margin requirements, rescheduling of repayments during the currency of the loan. Depending upon the merits of specific cases in respect of refinance, the IDBI charges a special rate of 6% with the primary lender's rate being subject to a ceiling of 9.5%. The normal rate of refinance is 6% with ceiling of 12.5% by the primary lending institution.

(ii) Central Investment Subsidy: The granting of cash subsidy on the capital investment is called capital investment subsidy. It will be usually in the form of outright grant of 10% to 20% of the amount of capital invested in the industrial units in areas specified to be backward regions/districts. The government also fixes ceiling above which they could not avail. It is offered by the Central Government.

Out of the 247 districts declared backward by the planning commission, 101 districts/areas have been selected to qualify for Central investment subsidy. These districts/ areas have been selected on the pattern of six districts/areas for industrially backward states and these districts/areas for other states. The salient features of the scheme are given below:

(i) Quantum of subsidy: When the scheme was originally announced in 1971, 10% of the investment made on fixed capital investment, viz, land, building and plant and machinery, was to be reimbursed as an outright grant subject to a ceiling of Rs. 15 lakhs.

This was raised to 15% with effect from 1.3.1973. The maximum amount payable is, however, restricted to Rs. 15 lakh per industrial unit.

After the division of backward districts into (A), (B) and (C) categories the subsidy will be: (A) 25% subject to a maximum of Rs. 25 lakhs; (B) 15% subject to a maximum of Rs. 15 lakhs (c) 10% subject to a maximum of Rs. 10 lakhs.

(ii) Eligibility: An industrial unit other than those run departmentally which made investments in land, building, and plant and machinery on or after 1-3-1973 and located in the above category of districts/areas is eligible to claim subsidies. Existing units taking into expansion, modernisation and diversification are also eligible to claim subsidy.

(iii) Procedure for Claiming Subsidy: The State Governments/ Union Territory administrations have nominated disbursing agencies to administer the scheme of investment subsidy. State Financial Corporation and financial institutions such as IDBI, IFCI, and ICICI are some of the agencies selected for disbursements of subsidy under the scheme. Each industrial unit being set up in the specified district/area gets registered with the Director of Industries for claiming investment subsidy. The units desirous of getting investment subsidy may approach the disbursing agencies who in turn make recommendation after verification etc., to the State level committee which has been appointed in each State Union/ Territory.

Tax holiday to new industrial undertakings set up in backward States and Union Territories

Under section 80-1A of the Income-tax Act 1961, deduction is allowed, in computing the taxable income in respect of profits derived from new industrial undertaking or a ship or the business of a hotel. The deduction under this section is allowed in the case of companies, at 30 percent of profits in respect of the assessment year relevant to the

previous years in which the hotel starts functioning or the industrial undertaking starts manufacture or the ship is first brought to use and nine assessment years immediately succeeding the initial assessment year. In the case of taxpayers being a co-operative society, similar deduction is allowed for the initial assessment year and eleven succeeding years, the deduction is allowed at the rate of 25% in the case of non-corporate assessees. Likewise, in the case of new hotels set up in a hilly area or a rural area or a place of pilgrimage or such other place as the Central Government may specify, the deduction is admissible at the rate of 50 per cent of the profits.

With a view to giving substantial thrust for encouraging the industrialisation in States and Union Territories, which are industrially very backward, the Finance Bill proposes to provide incentive for dispersal of industrialisation in remote and industrial undertakings located in a State or Union Territory specified in the new Eighth Schedule to the Income-tax Act, which starts manufacture or production after 1.4.1993, deduction under section 80-1A at the rate of 100 per cent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which the industrial undertaking begins manufacture or production. For the subsequent assessment years, deduction from the profits from such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 per cent in the case of non-corporate assessees. The deduction, at the enhanced rate and the normal rate together, will be limited to twelve assessment years in the case of co-operative societies and ten assessment years in the case of other assessees, as in the existing provisions.

States and Union Territories which are industrially very backward have been identified as those in which, according to the backward area Notification S.O.No. 165 dated 19.2.1986, all the districts are industrially backward. These States and Union Territories are Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Manipur,

Meghalaya, Mizoram, Nagaland, Sikkim and Tripura and the Union Territories of the Andaman and Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep and Pondicherry. The above list corresponds to the existing list of industrially backward areas specified by the Ministry of Industry.

The proposed amendments will take effect from 1st April, 1994 and will, accordingly, apply in relation to assessment year 1994-95 and subsequent years.

Tax holiday for the power sector

Under section 80-1A of the Income-tax Act, 1961, deduction is allowed, in computing the taxable income, in respect of profits derived from a new industrial undertaking or a ship or the business of a hotel.

With a view to substantially increasing the power generation capacity in the country, the Bill proposes to provide for a full tax holiday for five years and there after a partial tax holiday in respect of profits and gains of industrial undertakings set up any where in India for generation and distribution of power. Such undertaking which begins to generate power on or after 1.4.1993 will be allowed deduction under section 80-1A, at the rate of 100 percent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which the undertaking begins generation of power. For the subsequent assessment years, deduction from the profits from such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 percent in the case of non-corporate assessees. The deduction, at the enhanced rate and the normal rate together, will be limited to twelve assessment years in the case of co-operative societies and ten assessment years in the case of other assessees, as in the existing provisions.

The proposed amendments will take effect from 1st April, 1994 and will, accordingly, apply in relation to assessment year 1994-95 and subsequent years.

SPECIAL CONCESSIONS TO MRTP/FERA COMPANIES LOCATED IN INDUSTRIALLY BACKWARD AREAS

According to the existing policy, MRTP/FERA companies can participate in certain industries. Their entry into other items is subject to export obligation of 75% if the item is reserved for small scale and 60% if the item is not reserved for small scale. Keeping in view the need for developing backward area and the role that can be played by MRTP/FERA companies, the government decided to permit entry of MRTP/FERA companies, into other industries also which are not reserved for small scale sector with an export obligation of 50% for setting up industries in category B and C districts and 30% in respect of category A districts.

Setting up of Nucleus Plants and Ancillaries:

This scheme which came into operation in April 1983 and was in force till March 1985

1. As rapid industrialisation of backward areas would be facilitated by providing an impetus for setting up of such industries as can promote the development of ancillary units in the area government decided to recognise certain industrial units of this type as nucleus plants.
2. In order to obtain certification as a nucleus plant, an entrepreneur will have to apply in the proforma at Annexure IV while applying for industrial licence/registration certificate approvals to the competent authority.
3. The rate of central investment subsidy for nucleus plants will be as follows:

Districts in category A-25% up to a ceiling of Rs.25 lakhs.

B-20% up to a ceiling of Rs. 20 lakhs.

C-15% up to a ceiling of Rs. 15 lakhs.

4. MRTP/FERA companies will not however be entitled to central investment subsidy in respect of nucleus plants in category C areas. Nevertheless, the following additional concessions and incentives shall be available to all including the MRTP/FERA companies

SUBSIDISED CONSULTANCY SERVICES

Small entrepreneurs proposing to set up rural, cottage, tiny or small scale units, or to expand/diversify/modernise their existing units, can get consultancy services at a low cost from the technical consultancy organisations (TCO's) sponsored by All India and State level financial and promotional institutions and banks. They have to pay only 20% of the fees charged by a TCO for assignments such as preparation of feasibility studies, project reports, market studies, pre-investment studies, diagnostic studies and special studies and applications for seeking financial assistance from financial institutions, technical assistance, etc. The entire balance of 18% or Rs.5,000 whichever is lower is subsidised by IFCI in the case of assistance relating to the use of biogas or renewable/ alternative sources of energy. For units identified or assignments covering physically handicapped or scheduled caste/tribe entrepreneurs, 100% of the fees of the TCO for the assignment or Rs.6,000, whichever is lower is subsidised. If any entrepreneur is unable to take effective steps to set up the project within one year from the date of completion of consultancy assignments he will not be entitled to prevent the use of the report in any form or manner by the TCO or other entrepreneurs. An entrepreneur who has already setup a project at one place and wishes to set up an entirely different project at another place may be considered eligible for eligible for subsidy for the second.

project also. In any case, the subsidy will not be made available to the same entrepreneur for more than two projects.

SUBSIDY FOR MARKET STUDIES

New entrepreneurs (locally based or non resident Indians) entering the field of medium and/or medium large industry for the first time in the country can have market studies for their products undertaken by TCO at a cheaper cost. The fee for the preparation of a market study payable to TCO would be subsidised by IFCI up to 75% of the cost or Rs. 15,000, whichever is lower. The subsidy will be made available only to the TCO with which one or more financial institutions or development agencies at the State or All India level are associated as shareholder (s) or member (s) of board of management. The entrepreneur will have to bear only 25% of the cost of the study.

ADOPTION OF INDIGENOUS TECHNOLOGY

Promoters of projects involving commercial exploitation of indigenous technology can get assistance in the form of subsidy covering the interest payment due to IFCI during the first three years of operations of the project subject to a ceiling of Rs. 5 lakhs a year. In appropriate cases, the total subsidy could be upto Rs. 25 lakhs over a period of five years. However, the extent of subsidy would be determined by IFCI on a case to case basis having regard to the earning potential and projected cash flow of the project. The subsidy would be reimbursed to the concern after it makes payments of instalments of interest to IFCI on due dates. For being eligible for concessional assistance, the project should be set up with loan assistance from IFCI and be based on indigenous technology. The right to use this technology must have been acquired by the agency implementing the project from the concerned institution, viz, Government laboratories, public sector companies, universities, or any other institution recognised by the Government of India. The technology should be one which has not already been exploited on a commercial scale in the country, and a certificate to this

effect will have to be obtained from the concerned institution. The technology should be basic to the manufacture of the proposed product and not merely peripheral and the project must be of national priority as indicated by government from time to time.

MACHINERY ON HIRE PURCHASE

Small scale industrial units including ancillaries are eligible to procure machinery on hire purchase basis from the National Small Industries Corporation Ltd, through its liberalised terms and conditions for supplying machinery to small scale industries located in backward areas which qualify for investment subsidy. According to the liberalised terms, with effect from 1 st October 1975, the earnest money payable by technocrats and entrepreneurs from declared backward areas is 10% as against 15% in other cases. The rate of interest is 11% p.a. in respect of technocrats and entrepreneurs coming from backward areas and 13.5% in case of others. These concessional rates are available to units having a total investment in plant and machinery up to Rs. 2 lakhs. A rebate of 2% is allowed for prompt payment.

SPECIAL FACILITIES FOR IMPORT OF RAW MATERIALS

The Import Policy of 1978-79 has introduced special concession of import of raw materials in the case of industrial units set up in backward areas or by graduates/ diploma holders in professional subjects or by ex-servicemen/persons belonging to scheduled castes/scheduled tribes. The maximum value of the licence shall be Rs. 5 lakhs in respect of new or proposed small scale units instead of Rs. 3 lakhs. They will also be eligible for preferential treatment in the matter of canalised items.

TRANSPORT SUBSIDY

The transport subsidy scheme, 1971 envisages grant of a transport subsidy to industrial units in selected areas to the extent of 50% of the transport costs of raw materials which are brought into and finished

goods which are taken out of the selected areas. The scheme was extended up to the end of March 1985.

The scheme covered the State of Jammu and Kashmir, Himachal Pradesh, hilly areas of Uttar Pradesh and North Eastern comprising States of Assam, Meghalaya, Nagaland, Tripura and the Union Territories of Arunachal Pradesh, Andaman and Nicobar Islands, Mizoram and Lakshadweep.

INCENTIVES AVAILABLE TO SSI UNITS IN BACKWARD/ RURAL INDUSTRIES PROJECT AREAS

Certain special facilities and incentives have been provided to these backward districts. Of these, 101 districts/areas have been declared further as specially backward and hence additional incentives like capital subsidy, special import facilities, etc., are provided to industrial projects in these 101 districts/areas over and above what is given in the 247 districts.

In addition, 111 districts in the country have been covered under the centrally-sponsored Rural Industries Project Programme, Small - scale units set up in these areas get other special concessions and facilities. The various benefits are enumerated below.

1. An outright subsidy of 15% on the fixed capital investment up to a maximum of Rs. 15 lakhs is admissible to new units being set up in backward areas.
2. Allotment of factory or factory sheds in industrial estates/areas and industrially developed colonies on easy terms.
3. Interest-free loans in lieu of inter-state Sales tax paid/payable by SSI units are available up to 7 years, provided the loan in a particular year will not exceed 8% of the capital investment.
4. Loans and advances to SSI units under the State Aid to Industries Act and Rules framed thereunder, for the construction of factory

buildings, purchase of machinery and equipment and working capital on easy terms.

5. The State Financial Corporations grant loans for acquisition of fixed assets up to Rs. 30 lakhs in the case of limited companies and registered co-operative societies and up to Rs. 15 lakhs for others at liberalised margins and rate of interest, and this is done over a longer span of repayment and moratorium period.
6. The Centual State Government directly or ththrough its subsidiary concern the State Industrial Development Corporation- underwrites or participates in the preference shares of public limited compaines on a selective basic for setting up medium and large industrial units. The State Government also considers cases for setting up of joint ventures with the private sector.
7. The SSI units in the backwardareas and other industries with a capital invertment in plant and machinery upto Rs. 1 lakh are reliebed from the following taxation in some states:
 - (I) New unns established in the districts are completely exempted from the payment of ellectricity duty up to a .riod of 7 years.
 - (ii) New units are exempted from property tax for a period fo 5 years.
 - (iii) Industrial units set up with in the n .nciple limits are exempeted from onecapital equipm nt and building materials subject to a maximum period of 3 years from the date of regl .ar registration.
8. provision of essential, controlled raw materials to the SSI units on priority and at very liberal terms.
9. State Government have set up independent testing laboratories on be half of the Indian Standards Institution, the Export

Inspection Council, the Department of Defence, Government of India and various other government organisations for making industrial products of good quality.

10. In order to provide some important and sophisticated common facilities, a network of industrial development centres, heat treatment centres and common facility workshops have been set up in the States to equip the SSI units with modern techniques and process of manufacturing.

Special incentives in the form of transport subsidy to compensate partially for the higher transport cost of established industries in hilly backward areas is also being provided by the Union Government.

In the Import-Export Policy of 1983-84, the small scale units will be permitted to set up consortia to organise the sales of their own products abroad.

SEED CAPITAL ASSISTANCE

One of the constraints faced by the entrepreneurs, especially first generation or technical entrepreneurs, is the lack of resources to meet the minimum promoter's contribution. To help the entrepreneurs overcome the problem, IDBI has come up with a scheme which has gained popularity as the Seed Capital Scheme. If the project is coming up in non-backward areas, then the project would not be eligible for subsidy. Hence, the entire amount of promoter's contribution would be brought by the contributor himself. This would be reduced to the extent of the subsidy if the project is coming up in backward areas like (category A, B, or C). The maximum amount which can be sanctioned is to the extent of Rs. 5 lakhs per project on the fulfilment of certain conditions.

Objectives of the Scheme

The objectives of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but

whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to promote wider dispersal of ownership and control of industrial undertakings.

Agencies for Operating the Scheme

The scheme is operated through the agency of notified SIDCs and SFCs. Assistance under the scheme will also be given directly by IDBI in exceptional cases. Projects assisted by commercial banks are also eligible for seed capital assistance. However, the entrepreneurs will have to submit their applications through SFC/SIDC functioning in the region.

Eligibility Criteria

To be eligible for assistance, the entrepreneur should be technically or professionally qualified or possess relevant experience or skills either in industry, business or trade. The following categories of entrepreneurs are eligible for assistance under the scheme:

- (1) New generation entrepreneurs in small scale requiring seed capital of more than Rs.4 lakhs.
- (2) Small scale entrepreneurs who undertake expansion/diversification or modernisation.
- (3) Entrepreneurs intending to graduate from the small scale to medium sector for the first time.
- (4) Entrepreneurs intending to set up a project in the medium sector for the first time.
- (5) Entrepreneurs already in medium sector and intending to undertake diversification for achieving better viability.
- (6) Entrepreneurs seeking additional seed capital to meet project cost over-run caused by factors he and their control.

(7) Entrepreneurs intending to take over an existing sick or closed unit/projects constituted as public / private limited companies or partnership / proprietary concerns eligible for assistance.

Amounts and Mode for Assistance

The amount of seed capital assistance for project shall not exceed Rs. 15 lakhs. However, the actual amount will be determined on the basis of gap in the equity required for the project as also shortfall if any in the prescribed minimum promoter's contribution after taking into consideration his own contribution and from other sources and subsidies and incentives. For deciding the quantum of assistance the debt equity norms of 2:1 in the case of SSI units and 1.5:1 in the case of medium scale units would be adopted.

The assistance will be in the form of soft loans in the case of proprietary and partnership concerns. In the case of private limited companies, the assistance will be by way of soft loans or subscription to 1% cumulative redeemable preference shares. In the case of public limited companies the assistance will be normally by way of subscription to equity capital or cumulative redeemable preference shares (at 1%) or both or by way of soft loan.

The soft loan would be interest free which will carry a service charge of 1% per annum. However, IDBI may have option to charge the interest on soft loan at a different rate. There is no commitment charge. The repayment period depends upon repaying capacity of the unit with an initial moratorium period not exceeding 5 years. No security except the personal guarantee of the promoter is stipulated.

INDUSTRIAL LICENSING

The Industries (Development and Regulation) Act, 1951 (IDR) provides the basic framework for directing the flow of investments into various industries for achieving the planned targets. Industrial licensing is used as an effective instrument for this purpose. Various administrative

bodies have been set up to consider requests for the issue of industrial licence, import of capital equipment, foreign collaboration. These bodies are expected to decide the requests within the stipulated time limit. As a matter of general practice initially a letter of intent is issued stipulating conditions subject to which licence will be issued. The industrial licence is issued on furnishing evidence that the prescribed conditions have been fulfilled.

Industries Requiring Licence A licence from Government of India is necessary for the manufacture of any article included in the schedule to the IDR Act, 1951. To mention a few industries are: metallurgical industries, fuels, boilers and steam generating plants, electrical equipments, telecommunications, transportation, industrial machinery, fertilisers, chemicals, etc.

A licence is also necessary for taking up the manufacture of new article in the existing undertaking substantially expanding the capacity, business for which exemptions have been cancelled and changing the location of an existing industrial undertaking.

JULY 1991 CHANGES

The process of liberalisation got a fillip with the announcement of the new industrial policy in July 1991. The major provisions relating to industrial licensing in this policy can be summarised as follows.

(i) Industrial licensing will be abolished for all projects except for a short list of 18 industries related to security and strategic concerns, social reasons, hazardous chemicals and over riding, environmental reasons, and items of elitist consumption.

(ii) In projects where imported capital goods are required, automatic clearance will be given in case where foreign exchange available is ensured through foreign equity or where the CIF value of imported capital goods required is less, than

25% of total value of plant and equipment, up to a maximum value of Rs. 2 crore.

- (iii) The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them.
- (iv) Existing units will be provided a new broad banding facility to enable them to produce any article without any additional investment.
- (v) The exemption from licensing will apply to all substantial expansions of existing units.
- (vi) All existing registration schemes will be abolished.
- (vii) Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.
- (viii) The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

REGISTRATION OF INDUSTRIAL UNITS

Undertakings which are exempted from licensing and do not belong to small scale and ancillary units are expected to register themselves with the Directorate General of Technical Development (DGTD) in the Ministry of Industry. Small scale and ancillary units are required to be registered with the Directorate of Industries in the State in which the units are located.

Need for Registration of Small Units

Experience during the fifties revealed the fact that collection of various statistical data concerning small scale units was an absolute necessity for the development of this important sector of the economy

in planned and scientific manner. For want of proper "statistics" about the various phases of the small scale industries it was almost impossible to make recommendations to the entrepreneurs regarding fields where was scope for new industries and expansion of existing industries and the field, where, others have tried and failed. Hence, the Government introduced a system of registration to collect statistical data about small scale units in the year 1960.

But the small scale units were not willing to come forward for registration voluntarily as they derived no benefit out of it. Besides, they were slow in disclosing their activities. In order to make registration more attractive, it was made compulsory that small scale units applying for certain benefits such as import assistance, telephone connection, supply of controlled commodities should quote the SSI registration in their applications for such benefits. From that time onwards only registered units are being considered for technical, marketing and financial assistance offered to them by the government agencies. The General Manager, Districts Industries Centre has been empowered to register the units and issue the certification of registration. In case of Chennai district, where there is no DIC, the Regional Deputy Director is the Registering Authority.

TAXATION BENEFITS

The taxation benefits available to small scale industries are explained below:

1. **Tax Holiday:** New small scale industries are exempted from the payment of income tax under Section 80 J of the Act on their profits up to 6% (7.5% for companies) from the total income of the units in the assessment year in which the units began manufacture, provided the small scale units have followed the procedures laid down in Section 80J. This tax holiday is available up to 5 years from the commencement of production.

2. **Depreciation Allowance:** section 32 of the Income Tax Act, a small scale industry is eligible to get a deduction on depreciation account of plant and machinery, land and buildings, at the prescribed rates. In the case of small scale industries, the deduction from the actual cost of plant and machinery is allowed up to Rs.2 lakhs.

The depreciation is calculated on the reducing balance system. Full depreciation is available for a year irrespective of the actual number of days for which the assets have been used. Sometime, an additional allowance called extra shift allowance is available to the units.

3. **Development rebate:** In respect of new plant or machinery other than office appliance or road transport vehicles of small scale unit which is wholly used for purpose of production, a sum, by way of development rebate, as specified below, is allowed under section 33, in addition to normal depreciation.

(i) In the case of plant and machinery, 35% of the actual cost, if it were installed before 1st April 1970, and 25% or such cost if it were installed after 31st March 1970.

(ii) Where the plant machinery was installed after 31st March 1967, being an asset representing expenditure of a capital nature on scientific research related to the business carried on by a unit, development rebate is given at the specified rates.

4. **Rehabilitation Allowance:** This is granted to small scale units, under section 33 B, whose business has been disturbed by.

(a) Riot or civil disturbance.

(b) Floods, typhoons, hurricanes, cyclones, earthquakes or other natural disasters.

(c) Accidental fire or explosion.

(d) Action by an enemy.

The small scale unit re-established, reconstructed or revived, is allowed a deduction of a sum, by way of rehabilitation allowance, equivalent to 60% of the amount of the deduction allowable to the unit.

Investment Allowance: The investment allowance was introduced in 1976 in place of depreciation allowance. It is allowed at the rate of 25 percent of the cost of acquisition of new plant or machinery installed. The benefit of investment allowance is available for the articles or things except certain low priority items specified in the Eleventh Schedule. However, the Small scale units are eligible for investment allowance irrespective of whether they are used for the purpose of business of construction, manufacture or production of low priority items listed in the Eleventh Schedule.

If a small scale industrial unit produces any article or thing (not listed in the XI Schedule) by using the know-how developed in Government laboratories, public sector companies and universities, the rate of investment allowance will be 35 percent. This higher rate may be claimed only if the new plant or machinery is installed by it after 20-6-1977 but before 1-4-1982.

The Small scale unit can avail of the benefit of investment allowance only when it has put to use the plant and machinery either in the year of installation or in the immediate following year; otherwise the benefit will be forfeited.

Conditions to be fulfilled: An Investment Allowance Reserve must be created during the relevant financial year. This reserve should be utilised for the purchase of plant and machinery for the business purpose of the small scale unit in India. It cannot be used for any other purpose such as distribution of dividends or separation of profits or creation of assets outside India.

Publication of Books: A small scale industry engaged in the business of publication of books is entitled to claim a deduction of a sum equal to 20 percent of the profits and gains derived from such business under section 80 of the Act, "Books" for the purpose of this Section do not include newspapers, journals, Magazines, diaries, brochures, pamphlets and other publication of similar nature.

Tax Benefits for Amalgamation of Sick Units: Sickness in an industry, whether large or small, is quite widespread in the country and has become a national problem which has caused a great deal of concern. It is estimated that the aggregate amount involved in the sick units is more than Rs. 2000 crores. The policy of the Government has been to encourage the amalgamation of sick units and concessions have been announced to induce healthy units to take over sick concerns in the public interest. Tax concessions are available for the amalgamation of sick units.

Excise Concession: The long term Fiscal Policy has envisaged to provide the best solution for the problem of cascading effect of taxation of inputs on the value of final product in the Modified Value Added Tax (MODVAT) Scheme. This scheme provides for the extension of the present system of proforma credit to all excisable commodities with the excisable commodities with the exception of a few sectors like petroleum, tobacco and textile products. The objective of the scheme is to extend the scope of the provisions for set offs for excise and countervailing duties paid on inputs. This programme will be implemented in phased manner over a period of years, taking due account of the revenue implications, the need to revise administrative procedures and the lessons from experience gained in the early stages of the reform.

The purpose to use MODVAT is not to give substantial net reliefs on excise. The loss of duty on inputs will be recouped through higher excise taxation of final products. Indeed, shifting the effective burden

of excise taxation away from inputs and on to final products is at the heart of the proposed reform. Apart from reducing distortionary effects on production and thus increasing the competitiveness of Indian industry, the shifting of excise burden to final products will help in tailoring excise duties in such a manner that the well off bear a higher proportionate burden than the poor.

SUBSIDIES AND INCENTIVES IN TAMILNADU

Within the broader framework set by the various industrial policy resolutions and the five year plans, the government of Tamilnadu has formulated its own industrial policy. It has announced besides Central subsidies and incentive schemes, a number of subsidies, concessions, and exemptions, in order to lure more number of new entrepreneurs to set up their units in Tamilnadu.

To mention a few are:

- (i) State Capital Investment Subsidy
- (ii) Interest Free Sales Tax Loans
- (iii) Concessional Power Tariff (H.T) and Exemption from power Cut.
- (iv) Special Concessions to SC/ST Entrepreneurs
- (v) Concessional Water Royalties
- (vi) Stamp Duty Exemption, etc.

The agencies essentially concerned with the industrial development of Tamilnadu are TIIIC, SIDCO, ITCIT and SIPCOT. All India Financial Institutions, State and Central Government implement their schemes of assistance mostly through these corporations. Also the commercial banks, DICs and SISI are involved in the process of industrial development. Recently the Government of Tamilnadu has

announced two packages of measures to accelerate the pace of industrial development. The details of various measures are discussed below:

State Capital Investment Subsidy Scheme

The central investment subsidy is eligible for two categories of area in Tamilnadu as detailed below:

Category B: 15% subject to a maximum of Rs. 15 lakhs.

Category C: 10% subject to a maximum of Rs. 10 lakhs.

There are about 42 talukas eligible for this subsidy in B category and about 66 talukas in C category in Tamilnadu.

State Capital Investment Subsidy: In addition to the areas declared as backward by the Central Government, the State Government has also declared certain areas eligible for State subsidy. Under the scheme 34 notified backward talukas and new industrial complexes set up in Tutucorin, Chidambaram district and Cuddalore in South Arcot District are eligible for State subsidy equivalent to 1.5% of the fixed capital investment or Rs. 15 lakhs whichever is less (inclusive of central subsidy wherever applicable). The scheme covers all types of industries.

Subsidy Scheme for Selected Categories of Industries

In order to encourage certain specified categories of industries the Government of Tamilnadu has a special scheme to grant subsidy for selected categories of industries. The following types of industries set up anywhere in Tamilnadu not covered by the State or Central Capital Subsidy Scheme are eligible to get a subsidy of 10% on the value of the fixed assets to be created or at the rate of Rs. 20,000 per every regularly employed worker whichever is lower with an overall monetary ceiling of Rs. 10 lakhs.

- (a) Drugs and formulation of scheduled drugs.
- (b) A select list of automobile ancillary units.

- (c) Manufacture of equipment, machinery, etc., to tap solar energy for domestic and other industrial uses.
- (d) Export oriented gold jewellery making and diamond processing units.
- (e) Jute processing industry in the following 6 talukas.
 1. Ambasamundram (erstwhile Chaidambaranar District)
 2. Madurai (Madurai District)
 3. Musiri (Tiruchi District)
 4. Kumbakonam (Thanjavur District)
 5. Panruti (erstwhile South Arcot District)
 6. Chengalpattu (erstwhile Chengalpattu District)
- (f) Special capital subsidy of 10% on the value of fixed assets to be created subject to a maximum of Rs. 5 lakhs may be granted to the individual tanneries who set up effluent treatment plants in all the areas not covered by State or Central Subsidy Schemes.

Interest Free Sales Tax (IFST) Loan

All new small scale industrial units located in places outside 15 km belt around Madras City and those outside 8 km belt around Coimbatore, Madurai, Salem and Tiruchy agglomerations in Tamilnadu are eligible for assistance under this scheme subject to the condition that towns with more than 3 lakhs population will not be eligible for assistance. The maximum assistance available for SSI every year is 20% of the fixed assets or Rs. 20 lakhs, whichever is less. The loan will be interest free and will be recoverable in 3 equal annual instalments from the sixth year onwards and will be recovered in 6th, 7th and 8th year.

Salient Features of the Scheme: The application shall be filed with the General Manager, District Industries Centre of the concerned

district. The application in the prescribed form shall be processed and the eligibility certificate covering the entire period of 3 years shall be issued by the General Manager, District Industries Centre. The sanctioning authority is the General manager, DIC of the concerned District. After the issue of sanctioning order, the sanction order and eligibility certificate along with the documents required shall be forwarded to the Head office of SIDCO for effecting disbursements directly to the firm. The new SSI units as well as units going in for expansion after 1-4-78 will be eligible to get the benefits of the IFST loan.

The units which are likely to pay sales tax of not less than Rs. 4,000 in a year will be eligible to get the IFST loan.

The sales tax liability will be determined by the sum of the following amounts:

- (a) Net tax paid (less off admissible if any) under the TNGST Act 1959, on the purchases of raw materials.
- (b) Sales Tax paid on the sales of finished goods under the TNGST Act, 1959, and
- (c) Central sales tax paid under the central sales tax Act 1959 on the sale of finished goods.
- (d) Additional sales tax paid under Tamilnadu Additional Sales Tax Act 1979 and surcharge under TNGST Act 1971, if any paid on the sale of finished goods.

Concessional Power Tariff (H.T)

New industries set up any where in Tamilnadu are given a concession in power tariff for the first five years of the working as follow:

1. For the first three years 66.66% of the normal H.T. Tariff
2. For the 4th year 80% of the normal H.T. Tariff
3. For the 5th year 90% of the H.T. Tariff

In addition, new industries to be set up in any of selected backward talukas of the State are entitled to a further reduction of 15% in Tariff. However, the above concession shall not apply from the year when the industry starts earning profits.

L.T.Power: Subsidy is given under this scheme to all registered SSI units who consume L.T. power and who commenced production from 1.1.80 located anywhere in Tamilnadu excluding areas coming under the Madras Metropolitan Development Authority, urban and tax jurisdiction and urban land ceiling jurisdiction. The subsidy will be given for a period of three years from the commencement of production by the units at the rate of.

- (i) 30% of the actual energy charges paid by the unit during the first year;
- (ii) 20% charges of the actual energy paid by the unit during second year; and
- (iii) 10% charges of the actual energy paid by the unit during the third year.

Concessions in Water Royalties

New industries set up in any of the backward areas and other notified areas of the State would be permitted to draw water from public sources on payment of a fixed amount of Rs. 300 per annum as water royalty irrespective of the quantity of water drawn for a initial period of 6 years.

Special Concessions to Scheduled Castes and Scheduled Tribes Entrepreneurs.

- (a) *Concession in promoter's contribution:* 15% promoter's contribution will be sufficient to entrepreneurs belonging to scheduled castes/scheduled tribes to start new projects anywhere in the State.

- (b) Concession of 1.5% in interest on term loans: 11% interest will be charged on term loan if the new unit is situated in backward areas and 12.5% in other areas, to be set up by entrepreneurs belonging to SC/ST.
- (c) Direct participation in capital issue: SIPCOT will participate directly in the share issues and take maximum possible shares if SC/ST entrepreneurs are unable to mobilise shares on their own from general public.

Subsidy for Feasibility Reports/Studies: The object of the scheme is to make available feasibility reports/studies to the prospective entrepreneurs. The report/study will provide critical important and necessary information on the project which will enable the entrepreneur to take an investment decision and to implement the project.

The study will generally cover various aspects such as product specification, market analysis, process parameters and details of plant and equipment and know how with information as to the source of availability along with the cost of the project and various financial analysis. However, the financial analysis and the cost will have to be firmed up at the time of sanction of term assistance from financial institutions, banks etc. The study will be available from SIPCOT on payment of 10% of the cost incurred by the SIPCOT to prepare the same.

Entrepreneurs can also request SIPCOT to commission a feasibility study on the project entrepreneurs are interested in and deposit 10% of the cost of the study before it is commissioned. The prospective entrepreneur can utilise the project to make an investment decision and also to implement the project. SIPCOT is free to sell such reports on payment of 10% of the cost to any one else who is interested in the project. In case, the project gets implemented by the entrepreneur, 40%

of the cost of the report will be converted into loan recoverable from the operation of the project. Balance 50% will be treated as subsidy/grant from... SIPCOT.

Subsidy for Meeting Cost of market study: Under this scheme the new entrepreneur (locally based or non-resident) who proposes to set up a medium size project with capital cost exceeding Rs. 3 crores for the first time shall be eligible for a subsidy from IFCI up to 75% of the cost of market study subject to a ceiling of Rs. 15,000 if the assignment is handled by ITCOT at the instance of State of Central Development Finance Institution.

CHANGES IN EXISTING SCHEMES OF INCENTIVES AND CONCESSIONS FOR SMALL SCALE INDUSTRIES IN TAMIL NADU-AND NEW CONCESSIONS.

STATE CAPITAL SUBSIDY

- 15% of fixed capital investment (cost of land, building, plant and machinery) subject to a ceiling of Rs. 15 lakhs for the 82 backward taluks, State Industries Promotion Corporation of Tamil Nadu (SIPCOT)'s industrial complexes and growth centres, Tamil Nadu Small Industries Development Corporation (SIDCO)'s industrial complexes and other industries complexes developed by Government Agencies including the Madras Metropolitan Development Authority, Madras Export Processing Zone, etc.
- 20% of fixed capital investment subject to a ceiling of Rs. 20 lakhs for units in the 31 most backward taluka in Tamil Nadu.
- The cost of second hand machinery should be excluded from the total amount of capital investment, for subsidy purposes.
- All new units and also existing units which go for substantial expansion/diversification will also be eligible

Power intensive industries like iron and steel smelting, aluminium smelting and calcium carbide units and small service and business oriented establishments are ineligible.

Application for subsidy is to be filed through the District Industries Centres.

ADDITIONAL CAPITAL SUBSIDY FOR EMPLOYING WOMEN

- 5% additional capital subsidy subject to a maximum of Rs. 5 lakhs is available for units in which more than 30% of the workers are women.
- This is not applicable to industries such as (a) Food Products (b) Garments (c) Leather products (d) Hosiery and (e) Matches in which traditionally women are employed.

SPECIAL CAPITAL SUBSIDY FOR SELECTED CATEGORIES OF INDUSTRIES

- 20% of the capital investment upto a ceiling of Rs. 15 lakhs for electronics, Rs. 20 lakhs for leather and Rs. 15 lakhs for other industries (exclusive of value of second hand machinery)
- This subsidy is available to industrial units irrespective of their locations, subject to the condition that where backward area subsidy is available, this subsidy will become part of such subsidy.
- New or existing small scale units involved in
 - (1) Leather industry
 - (2) Electronic industry
 - (3) Auto ancillaries
 - (4) Drugs and Pharmaceuticals
 - (5) Solar Energy equipment

- (6) Gold and Diamond jewellery for export
- (7) Jute processing industry in six taluks namely Ambsamudram (Nellai Kattabomman), Madurai (Madurai), Musiri (Trichy), Kumbakonam (Thanjavur), Chingleput (Chengai MGR) and Panruti (South Arcot).
- (8) Pollution Control Equipment
- (9) Sports goods and accessories
- (10) Cost effective building materials like aluminium, PVC doors and windows, window frames etc.
- (11) Food Processing industries

- Existing industries which undertake expansion/diversification without any limit to the number of expansion/diversification are eligible for subsidy.

STAGE BY STAGE RELEASE OF STATE CAPITAL SUBSIDY

- From 27.2.1992, the industries department, government of Tamil Nadu ordered stage by stage release of State Capital Subsidy as per the following procedure:
- In respect of land purchased and new building constructed, 25% of subsidy to be released after completion of civil work, 50% after installation of plant and machinery and 25% after commencement of commercial production.
- In respect of ready built building purchased, 25% to be released after execution of sale/purchase deed, 50% after installation of plant and machinery and balance 25% after commencement of commercial production.
- In respect of premises taken on rent or lease or units being set up in own premises/ building without new civil construction

50% to be released after installation of plant and machinery and 50% after commencement of commercial production.

LOW TENSION POWER TERIFF SUBSIDY

Available for 3 years form date of commencement of production or date of power connection, whichever is later, at 40% of actual energy charges paid for the first year. 30% for the second year and 20% for the third year to all small scale industrial units consuming low tension power excluding areas falling under Madras Metropolitan Development Authority/Urban Land Tax jurisdiction and Urban Land Ceiling jurisdiction namely Madras and its environs of 15km and towns of Coimbatore, Madurai, Salem and Trichy with 8 km belt area.

For reimbursement of power traiff paid once in six months claim should be made through District Industries Centre with copies of permanent registration certificate and photostat copies of Electricity Board Consumption card and the receipt from the EB for having paid the charges. For bills paid from January to June, claim should be made before August 31, and for the bills from July to December, before February 28 of the succeeding year.

POWER GENERATION SUBSIDY

15% of the cost of the generator not exceeding 5 lakhs. All high tension/low tension power consuming units are eligible.

Generator purchased for replacement of old generator is also eligible subject to some conditions.

Conventional, resource based and power intensive industries are not eligible (for complete list contact DIC)

Prior permission of TNEB is to be obtained for installation of new generator sets.

- Generator should be purchased from the manufacturer or from the dealer accredited by the manufacturer.
- After installation of generator, application should be filed for subsidy to DIC.

INTEREST FREE SALES TAX-DEFFERAL/WAIVER

- Full waiver of sales tax for a period of 5 years upto a ceiling of total investment in fixed assets made in new units and a similar concession for existing units undertaking expansion/diversification in the 31 MOST BACKWARD TALUKS or Sales tax defferral for 9 years to the full extent of the total investment made in fixed assets for new units.
- Sales tax deferral for 9 years to the full extent of the total investment in fixed assets made in new units and to the extent of 80% of the additional investment made in fixed assets under expansion/diversification in the 82 taluks declared as backward taluks.
- Sales tax deferral for 5 years subject to a maximum of 60% of the total investment made in fixed assets in the case of new industries and 50% of the additional investment in fixed assets made in case of expansion/diversification in other areas.

SUBSIDY FOR QUALITY PRODUCTS

- Upto Rs. 2,000/- for getting ISI certification. This is given only once for a product.

INCENTIVES AND SUBSIDIES UNDER NEW POLICY

The new industrial policy of Tamilnadu stresses upon the role of infrastructure for industrial development. The Tamilnadu Corporation for Industrial Infrastructure Development (TACID) will be constituted to provide the necessary infrastructure facilities by starting growth

centres and identifying areas to be industrialised. To ensure uninterrupted power supply, production and transmission of power will be given highest priority. A rational tariff policy has been evolved. The new industries in Tamilnadu are eligible for tariff concessions as below:

I year	40 per cent	Besides new industries, any expansion
II year	30 per cent	etc. will also be eligible for these
III year	20 per cent	concessional tariff.

100 per cent export units will be exempted from power cuts.

The Small Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. At the end of the Ninth Plan period, it accounted for nearly 40 per cent of the gross value of output in the manufacturing sector and over 35 percent of the total exports from the country. It also provided employment opportunities to around 12 million people.

An Evaluation of Small Industry Policy

With regard to the new policy announcement: The question arises : Does the new policy ensure a better economic environment in which the small and tiny sectors will be able to realize their growth potential?

Firstly, let us take the question of supply of credit. Government has been proclaiming the myth of supply of "concessional credit" to the small sector, although the rate is 1 percent lower than that of non-concessional credit. But now even this myth is sought to be removed by the proposed shift from subsidized / cheap credit to adequate supply to credit.

Secondly, the policy statement makes an important recommendation regarding the provision of equity to be held by another

undertaking upto 24 percent in small units. This other undertaking may be small or large, Indian or foreign. The basic premises on which this statement is based are: Induction of equity only upto 24% will imply minority participation by outsiders and thus, it would not be possible for the outsiders to dominate small units, and secondly, to involve the firms in small sector. A closer scrutiny of these premises reveals that they are spurious. Ram K. Vepa, former Development Commissioner, Small Scale Industries in this connection writes: Even now, it is contended that a number of small units are controlled by the large units with their nominees acting as benami owners. It is feared that, through the new provision, this will be legalized and with a share holding of 24 percent, supported by one or two of the family owning shares, the small units becomes virtually (if not legally) a subsidiary of the large company.

Regarding transfer of technology by the large units to the small units, it is doubtful whether the large units will ever like this to take place, but big units are interested to use the small units only as subcontracting agencies for small jobs, they would never encourage them to become independent units in their own right.

Thirdly, several studies about the sickness of small units reveal that the big firms (the principals) do not make timely payments to the small units even after the delivery of goods by the latter to the former. This obstructs the cash flow of the small firms. Unable to meet the working capital requirements, these units grow sick and close down, because the principals delay payments sometimes even by six month and in extreme cases by a year as well. It is expected that the new policy would incorporate a law to limit the payment of small sector dues within 45 days.

Fourthly, Government policy does not even take note of the large number of sick units in the small sector. According to the Economic Survey (1993-94), there were 2.46 lakh sick unit in the small scale sector with outstanding bank credit of the order of Rs. 3,100 crores. The basic

question that arises is: Is it possible to prevent this large scale sickness in the SSI units? For this purpose, it is essential that greater professionalism in management of the small units be induced. Need it be mentioned that poor management has been identified as one of the principal causes of sickness. It would be, therefore, necessary that small entrepreneur are given proper training in the management of enterprises. Such training is essential since the small entrepreneur has to perform several functions such as organisation of production, arranging finance, procuring orders to market the products and along with it, to maintain public relations etc. The small entrepreneur, therefore requires multi-faceted training so as to be able to do his job effectively.

To sum up, the policy statement on small sector does make some headway in the sense that as against the provision of the time benefits to small industry like preference in land allocation, power connection etc. it provides for continuous support to the tiny sector like easier access to institutional finance, preference in government purchase and relaxation of certain labour laws. Since tiny sector is nursery of traditional skills of the rural areas, the package of incentives proposed for the tiny sector will help it to grow in strength. This is a welcome step. Since the tiny sector caters to artisans and craftsmen both in the rural and urban areas, such a policy is helpful in the alleviation of poverty.

Abid Hussian Committee Report on SSI

The Government appointed an Expert Committee under the chairmanship of M. Abid Hussian to suggest measures to improve the growth of Small Scale Industries. The Committee submitted its report. The main recommendations of the Committee are as under.

1. *Enlarging the concept of small scale industries*

The committee is of the view that, so far the government focus has exclusively been on small scale industries, the concept of the small

scale business should be widened to include small scale industries and service enterprises.

2. Policy of protection to be replaced by the policy of promotion

So far, the accent of SSI policy was on infant industry protection, based on the assumption that the SSI units cannot withstand predatory competition of large companies. This approach needs a radical change. The committee has recommended that the policy of protection be replaced by promotion as the cornerstone of future policy. Adequate supply of credit, service, technology assistance, infrastructure and low transaction costs are the hallmarks of the proposed strategy of promotion for small sector enterprises (SSEs).

3. Increasing public private partnerships in setting up support systems for SSEs.

According to Abid Hussain Committee, the centre-piece of the new approach is setting up support systems for SSEs. For this, it is necessary to develop clusters of SSEs because clusters can become a source of informational economics, accretion of skills and economic in infrastructure development.

The committee recommends that in future the development of SSEs should be largely the responsibility of State Governments. The Central Government's task should be confined to policy formulation, legal and institutional development.

4. Abolish Reservations

One of the most important and also the most controversial recommendation of the committee is to abolish all reservations of products which can be exclusively manufactured by Small Scale Industries only.

This policy is now inconsistent with the current trade reform which allows the free import of the large majority of goods and services and

the remaining consumer goods can be imported under special quota license. A large number of reserved products are either not manufactured at all by the small scale sector or their sales turnover is insignificant. On the other hand, the important sectors like light engineering and food processing have not been able to grow due to the limitations imposed on it. Moreover, the pace of expansion of exports in such important sectors as textiles and leather is threatened because India is unable to supply large enough volumes with adequate quality within the required delivery time. The problem will be accentuated when quantitative restrictions on imports in developed countries, such as those under the MFA are withdrawn. Abid Hussain Committee believes that this is the most powerful argument for the abolition of small Small Scale Industry reservation forthwith. However, the government must take simultaneous transitional arrangements to assist small scale units affected by this dereservation.

5. Transitional arrangements for SSIs to be affected by dereservation

The Committee has identified that 68 items account for more than 80 percent of the total value of production of reserved items. Since they would be adversely affected by dereservation, the Government should provide annual resources of the order of Rs. 2,500 crores over the next 5 years, thereby totalling Rs. 2,500 crores to the Ministry of Industry for providing the proposed support. These resources should be provided in the form of concessional funding in terms of equity support and interest rate concession to such units for expansion, technology upgradation, modernization and training. Some fiscal concessions may also be provided during the transition period of five years.

6. Raising the investment limit for SSI limits

The Committee recommended the investment limit of Rs.25 lakhs for tiny units. For Small Scale Enterprises, the committee recommended the threshold level to be immediately raised to Rs. 3 crores.

7. Removing equity participation limit of 24 percent

The Committee while listing measures to provide credit and funding sources for SSEs recommended that 24 percent ceiling on equity participation by large companies and foreign direct investment in SSEs be removed.

SMALL SCALE INDUSTRIES DEVELOPMENT PROGRAMMES

I. Incentives in backward areas

Government provides concessional finance to small scale units set up in backward areas. The Central Investment Subsidy Scheme which was discontinued w.e.f. 1.10.1988 has been revived for small scale units located in rural and backward areas.

II. Entrepreneurial development programmes

The Entrepreneurial Development programmes and creation of awareness in people towards setting up of small scale industries are two important prerequisites for industrial development and reduction of unemployment. A number of Entrepreneurial Development programmes are, therefore, being organized by SIDO through small industries services institute (SISI) and their branches, since 1970, with the help of State Directors of Industries, State Financial Corporation, Commercial Banks and other Developmental Agencies for the benefit of different target groups, consisting of, both skilled / semi skilled and educated / uneducated persons. These programmes are organized for engineering and non/engineering entrepreneurs. Entrepreneurial Development Programmes for non-engineers include women, rural artisans, technicians, weaker sections of the society, educated unemployed and the physically handicapped.

III. Ancillary development and sub-contracting exchanges

Under the Ancillary Development Programme, individual items are identified for ancillarisation. These exchanges act as an information house for matching the requirements of medium / large undertakings looking for sub contractors with small scale units desirous of securing orders from medium / large undertakings.

IV. Modernisation programmes

The Modernisation programme envisages upgradation of obsolete technology of small scale industry through identification of their input needs in rural, urban and backward areas of the country. The main objectives of the programme are :

1. Improvement in production technology
2. Product Development Design
3. Testing, Design and Quality Control
4. Machinery and Equipment
5. Selection of proper Raw material
6. Application of improved Management Technology.

Under the Modernisation programme, seminars, industrial clinics, industrial workshops, modernization courses and study visits are organized. 20 industries have been selected on All India basis and 38 industries on concentration basis in different States.

V. Government stores purchase programme

The National Small Industries Corporation verifies the competence of small scale units for executing government orders and enlists them for participation in government stores purchase programme. 409 items are reserved for exclusive purchase from small scale industrial units / KVIC / Women Development Corporations by the Government

purchasing agencies. A price preference extending up to 15% is given to small scale unit over medium / large scale units.

VI. Reservation of items for production

With a view to giving protection to small scale units, 836 items have been reserved exclusively.

VII. Awards for small scale entrepreneurs

In order to encourage the entrepreneurs and give them proper recognition in small scale sector, a scheme of national award has been introduced since 1983-84. The awards carry a cash prize of Rs.25000/-, Rs.20000/- and Rs.15000/- besides special award of Rs.10000/-.

VIII. Financial assistance to small scale industries

A net-work of State Financial Corporations, National Small Industries Corporation, State Small Industries Corporations, Commercial Banks, Cooperative Banks, Regional Rural Banks provides financial assistance to small scale units. Small Industries Development Bank of India provides re-finance to the industrial loans advanced by these institutions to the small scale sector.

IX. Export promotion

Trade exhibitions are held abroad and export worthy SSI units are given opportunity and assistance in exhibiting their selected items in these exhibitions. SIDO provides assistance towards handling, clearing, insurance, publicity, freight etc., without recovering this expenditure from the participants. The trade enquires generated in these exhibitions are circulated. The trade delegations and sales-cum-study teams are sponsored from the small scale sector under the MDA Scheme of the Ministry of Commerce which provides reimbursement of 60% of

the expenditure. In addition to participation in external exhibitions, these organizations also participate in various exhibitions in collaboration with other concerned organizations.

The Import - Export policy allows various exports / imports entitlements to exporting units under various schemes covered under the policy. These schemes primarily relate to advance licensing scheme, imports under Indo-US MOU, scheme of 100% EOUs, setting up of units in FTZs/EPZs. The proposals received from SSI units are considered and recommended for granting of various licenses entitlements to the importers to help them to meet their requirements of material etc. Imports under some of the schemes are allowed without payment of customs duty. The current import policy has, for the first time, allowed import licenses to the service centers approved by this organization for import of spares for Rs.1 lakh per annum. The cases for such imports are scrutinized for recommending the needed imports. The Export-Import policy provides for double weightage on exports from small scale units for recognition as Export / Trading Houses.

X. Industrial estates

An Industrial estate is an attempt to provide, on a rental basis, good accommodation and other basic common facilities to groups of small entrepreneurs who would otherwise find it difficult to secure these facilities at a reasonable price. However, India's experience proved to a partial success. Major factors accounting for the poor output and employment performance of many estates include wrong location, unsuitability of sheds and space to the needy, low use of capacity in functioning firms, and occupation of factory sheds by government agencies. According to the Sixth Plan (1980-85), by March 1979, there were 662 completed industrial estates, wherein 13,467 small scale unit

were functioning, accounting for an annual production of about Rs.636 crores and providing employment to about 2.2 lakh persons.

QUESTIONS

1. What are the various incentives and subsidies available for an entrepreneur from the government of India for setting up units in the backward areas?
2. What are the various schemes and facilities provided by the government of Tamil Nadu for setting up a small scale unit in the state?
3. Evaluate the Abid Hussain Committee Report on the SSI policy of the government of India.
4. What are the developmental programmes undertaken by the government of India for the promotion of small scale industries in the country?

UNIT - III**Chapter - 4****CAPITAL STRUCTURE OF SELECTED UNITS**

Every business unit needs funds for two purposes for its establishment, and to carry out its day to day operations. Funds required for establishment of business get invested in purchase of fixed assets in the form of plant, machinery, land, buildings and furniture, etc. Funds required in a business (on the other hand) to carry out day to day operation are used to purchase raw materials, to maintain work in progress, to maintain required level of stock of finished goods, to meet day to day running expenses like payment of wages and salaries etc., and to sustain the business activities during the period for which goods have been sold on credit.

DETERMINANTS OF WORKING CAPITAL

A large number of factors influence the working capital needs of the firm. The nature of firm's activities, the health of the country, availability of materials, the ease or tightness of the money market are all part of these shifting forces. It is difficult to rank them because the influence of individual factors rises and declines over a period as the corporate policies and the environment in which they operate change.

Capital Structure and Working Capital

Normally, the word structure refers to the arrangement of the various parts of a building or some other construction. The construction of a building requires some standard proportion in which various elements are mixed together. They naturally depend on the size and nature of what is built. Similarly, any corporate enterprise will raise its capital from diverse sources such as issue of shares, debentures, long-term loans, ploughing back and short-term loans. Generally, issue of shares dominate the field. Borrowing and retained earnings, particularly

the latter, serve as source only at the later stages of corporate development. The arrangement of capital goes by the name of capital structure. There are certain objectives for maintaining a desired capital structure, e.g. minimisation of cost of capital and maximisation of the value of the share, etc.

Factors influencing capital structure

To design suitable pattern of capital structure for the company, the finance manager must bring about a satisfactory compromise among conflicting factors of cost, risk, control and timing. This compromise is to be reached by assigning weights to these factors in terms of economic and industrial characteristics and also in terms of specific characteristics of the company. Normally, the factors can be classified into External and Internal.

I. External Factors

a. The nature of business activities

When the economy is under depression, the firm has to assign greater weightage to manoeuvrability. Manoeuvrability is the direct result of a firm's adherence to the financial structure which is acceptable to the community, so that, the company may have several alternative sources available to procure additional funds to meet its growth needs. The equity financing should be given more emphasis in financing programmes and avoid issuing bonds with restrictive covenants.

b. Capital Market Trends

The capital market trends studied should be in depth since cost and availability of different types of funds is essentially governed by them. When there is bearish trends in the stock market, interest rates are expected to decline and the firm has to pay more attention to manoeuvrability factor in order to take advantage of cheaper debt later on, and, postpone debt for the present. However, if debt will become

costlier and will be scarce in its availability owing to bullish trend of the market, income factor may receive higher weightage and accordingly, the management may wish to introduce additional doses of debt.

c. Taxation System

The existing taxation system makes debt more advantageous in relation to stock capital in as much as interest on bonds is a tax deductible expense, whereas, dividend is subject to tax. However, it is too difficult to forecast future changes in tax rates, there is no doubt that the tax rates will not be adjusted downwards. With high corporate tax rate, the firm would wish to raise degree of financial leverage by placing greater reliance on borrowing.

d. State Regulations

The capitalisation decisions are subject to state control. For example, Control of Capital Issue Act in India has prescribed 4:1 ratio between debt and equity and 3:1 between equity and preferred stock. Within this overall framework, the management should strive towards attaining appropriate capital structure.

e. Policy of Term-financing Institutions

When financial institutions adopt tight policy of lending and prescribe highly restrictive terms, the management must give more significance to manoeuvrability principle and abstain from borrowing those institutions so as to preserve the company's manoeuvrability in capital funds. On the other hand, when the funds are available in desired quantity and on easy terms from the financial institutions, it would be better for the firms to obtain funds from the institution that supplies cheaper funds.

f. Cyclical Variations

Generally, markets have under-fluctuations. Certain products are subject to wider variation in sales in response to national income. For example, sales of refrigerators, machine tools and most capital equipments fluctuates more violently than the income. On the other hand,

some products have a low income elasticity and their sales do not change in proportion to variation in national income. Non-durable consumer goods, inexpensive items like paper clips or items of habitual use are examples of such products which are fairly immune to changes in level of income.

The firm takes into consideration the manoeuvrability and risk principles in choosing suitable sources of funds in an industry dealing in products, whose sales fluctuate very markedly over a business cycle, so that, the company may have freedom to expand or contract the resources used in accordance with business requirements. Further, the management would be averse to secure loan for additional funds since this would go against the interests of the owners and the company would run the risk of bankruptcy during the lean years which could spell death knell of the company.

g. Degree of Competition

Most of the public utility concerns work on no-profit-no-loss basis. They are generally free from inter-industry competition. These concerns would provide greater weightage to cost principle to take advantage of financial leverage. In case of industries, there is heavy competition among concerns and profits of the business are, therefore, not easy to predict, risk principle should be given more consideration. Accordingly, the company should insist on equity stock financing because it would incur the risk of not being able to meet payments on borrowed funds in case bonds are issued.

II. Internal Factors

a. Size of Business

Small firms could not mobilise funds because of their poor credit-worthiness. Investors would like to invest their money in securities of these companies. Due to highly restrictive terms in lending, special attention should be paid to manoeuvrability principle so as to assure that as the company grows in size it is able to obtain funds when needed.

and under acceptable terms. This is why common stock represents major portion of the capital in smaller concerns. However, the management should also give special consideration to the factor of control because of the company's common stock are publicly available and some large concern might buy a controlling interest. In view of this, the management might insist on debt for further financing so as to maintain control or common stock.

b. Form of Business Organisation

In case of private limited companies, ownership is in the hands of few hands. Whereas in the case of public limited companies, the shareholders are widely scattered that it becomes difficult for them to organize in order to seize control. In case of a public limited company, its inherent characteristics finds it easier to acquire equity as well as debt capital.

Owing to limited access of proprietary or partnership concerns to capital market, they couldn't acquire more capital.

c. Stable income

When there is a stable income from sales, a company can insist on leverage principle and accordingly it can undertake the fixed obligation debt with low risk. On the other hand, the irregular earnings will not choose to burden itself with fixed charges. Such company should, therefore, pay greater attention to risk principle and depend upon the sale of stock to raise capital.

d. Asset Structure of Company

A Company, which has invested major portion of funds in long-lived fixed assets and demand those products it assured, should pay greater attention to leverage principle to take advantage of cheaper source. But risk principle will outweigh leverage principle in company, whose assets are mostly receivables and inventory and whose value is dependent on the continued profitability of the individual concern.

e. Company background

New firms find it difficult to raise capital in the initial years because of greater uncertainty involved in them and also because they are not known to supplier of funds. A firm has to pay attention to maneuverability in their growth requirements. On the other hand, established companies with good earnings record are always in comfortable position to raise capital from whatever sources they like.

f. Credit Standing

Generally, a firm with high financial background has greater ability to adjust sources of funds in response to major changes in needs for funds than the one with poor credit standing. In the former case, the management should pay greater attention to maneuverability factor and should aim at improving credit standing of the latter by improving its liquidity and earnings potential.

g. Effectiveness of Management

The quality of the top management will also affect the pattern of capitalisation. The management attitude towards control of the enterprise and risk in particular have to be minutely observed. Where the management has strong desire for assured and exclusive control, preference will have to be given to borrowing of funds. When the chief executives want to stay in office, they would insist more on risk principle and would be interested in issuing bonds or preferred stock, which might land the company in greater risk and endanger their position. On the other hand, when the Board of Directors have been in office for a pretty long time, they would feel relatively assured and would prefer to insist on the leverage principle and assume more risk by resorting to further borrowing in their attempt to improve the company's earnings.

Generally, a corporation should be neither over nor under-capitalised. To be considered in each case, however, are the nature of the enterprise, the degree of monopoly, the nature of the assets; the state of the securities market, the experience of the management, the

prospects for the company, and many other elements which may apply to particular cases. The most glaring defects in the promotion of new concerns are seen in the shape of over-capitalisation and under-capitalisation.

Over-Capitalisation is generally a more common phenomenon and under-capitalisation has rare occurrence. Both are detrimental to the interests of the society. While over-capitalisation involves a strain on the financial resources of the corporate undertaking and endangers the economic prosperity of the country, under-capitalisation may accentuate unhealthy competition and sow seeds of dissensions. Both under-capitalisation and over-capitalisation are avoidable evils. However, to choose between the two, under-capitalisation seems to be less worse for that matter. In order to be on a sound footing, it is necessary to ensure that the initial security issue provides enough capital to pay for the preliminary expenses, fixed capital, and minimum working capital. The failure on the part of the promoters to make correct estimates regarding the amount of capital necessary to start a new concern owing to the absence of a promotion service is as much responsible for under-capitalisation as it is for over-capitalisation. Another reason is the difficulty of obtaining minimum capital requirements through the new issue market owing to the defects in the security of marketing organisation. This difficulty is usually of a serious nature only in the case of smaller companies, but during conditions of depression, larger companies are also affected. While these causes of under-capitalisation are understandable, the belief that under-capitalisation makes for higher dividends is a mistaken one, because in actual practice, under-capitalisation concerns are forced to depend on such highly uncertain and expensive sources of finance as intermediate financiers, indigenous bankers or public and private investors. Consequently, instead of increasing the return on capital, this practice only serves to reduce the margin of profit and dividends.

Most of the British companies in India used to obtain their initial capital through security issues and did not depend on fluctuating sources of finance either for fixed or for working capital. On the other hand, a

number of Indian industries have resorted to the capital market only for a portion of the initial requirements and have financed working capital and sometimes even a portion of the fixed capital from other sources

The various sources of Medium and Long-term finance

Financing means providing money for investment in the form of fixed assets and also in the form of working capital need for day-to-day operations. Funds can be secured from various sources. While the availability of finance is of vital importance to any firm, securing it from proper sources is of prime concern to the finance manager. There are various sources as explained below :

(1) External Sources

(2) Internal sources

The external sources of a firm may be further classified according to ownership and debt viz.

(1) Owned Capital or Share Capital

(2) Debt Capital or Borrowed Capital

Share capital may consist of (1) Equity and (2) Preference, whereas debt or borrowed capital may be of following types :

(1) Debentures

(2) Institutional loans (other than banks)

(3) Loan from commercial banks

(4) Public Deposits

(5) Lease financing

(6) Hire Purchase

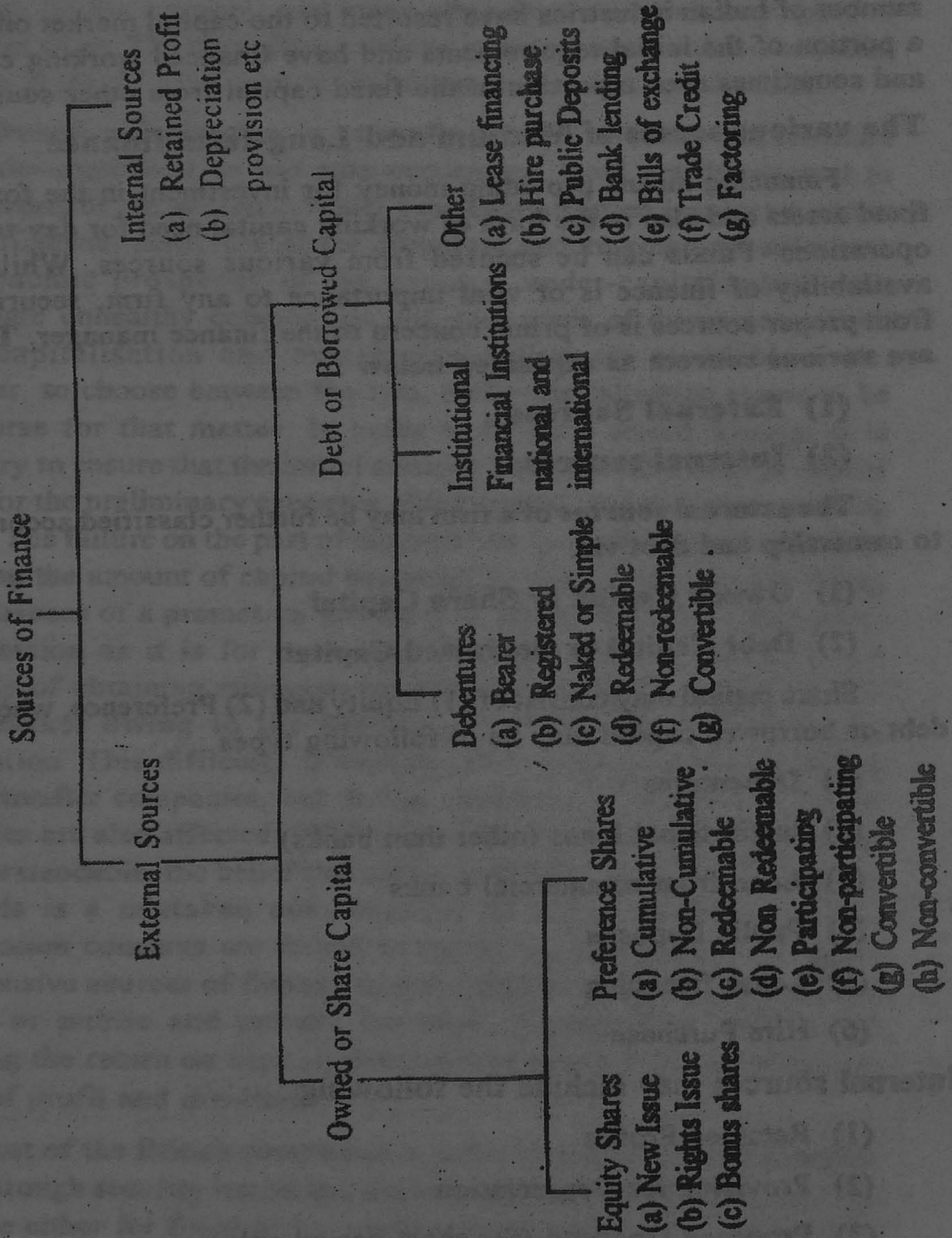
Internal sources may include the following :

(1) Retained Profits

(2) Provision for Depreciation

(3) Proposed Dividend (for short-period only)

The various sources of finance are shown in the figure.



On the basis of maturity or repayment period, the sources can also be classified into :

- (1) *Short-term sources*, (i.e.) those that are required to be liquidated within one accounting period, e.g., trade credit, bills of exchange, cash credit/overdraft, short-term bank borrowings etc.
- (2) *Medium-term sources* : Ordinarily included in this group are those that are required to be liquidated within a period exceeding one year but not exceeding 5 years, e.g. Public Deposits, Institutional Loans, etc.
- (3) *Long-term sources* : These include those, where, repayment if any, may take place after 5 years and more, e.g., Equity shares Preference shares, Debentures, long-term institutional loans, etc., While long-term debt capital is repayable as per contract, share capital can be paid back in case of redeemable preference shares only, equity and other types of share capital can be repaid only in the event of liquidation of a firm.

Working Capital

Working capital is the fund available for meeting day-to-day requirements of an enterprise. It is a fact that a part of the fixed or permanent capital is invested in assets, which are kept in the business permanently or for a long period, for the purpose of earning profit. They are known as fixed assets viz. land and buildings plant and machinery, furniture and fittings and intangibles like good will, patent and trade marks and long-term investments. Similarly, yet another part of permanent capital available for supporting the day-to-day normal operations, is known as the working capital. This working capital produces various costs namely materials, wages and expenses. These costs usually lead to production and sales in case of manufacturing concerns and sales alone in others.

The initial investment of cash as working capital for this specific purpose has to be continued till the time comes when sales-revenue commences flowing in substantially and in a regular way. From this stage, the business is found to acquire a momentum of its own. The flow of revenue is expected to continue to replace the cash lost in its day-to-day outflow for the generation of the costs mentioned above.

There are two concepts of working capital, namely, gross concept and net concept. According to the gross concept, working capital refers to sum total of all current assets of the enterprise employed in the business process. This is a going-concern concept, since the finance manager is highly concerned with the management of these assets with a view to bringing about productivity from other assets.

Contrary to the gross working capital, the net working capital represents excess of current assets over current liabilities. These two concepts are not to be regarded as mutually exclusive. Each has its relevance in specific situations. Gross working capital deals with the problems of managing individual current assets in day-to-day operations. The constituent components of current assets are stock of raw materials and supplies, work-in-progress, finished goods, book debts and minimal cash and bank balances. Thus, the gross concept is in the nature of the quantitative definition that focuses attention on the levels of current assets for given activity.

According to the gross concept, working capital refers to total current assets. Economists like Mead, Malott, Baker and Field, feel that current assets should be considered as working capital as the whole of it helps to earn profits; and the management is more concerned with the total current assets as they constitute the total funds available for operational purposes. When a firm wants to determine the rate of return on investments in current assets like fixed assets, the gross working capital concept is more useful. It is a fact that an increase in funds will increase, other things remaining constant, working capital and vice versa.

However, when there are short-term debts due to outsiders, it is advisable to deduct these from the gross current asset values to reveal the net effective working capital value. Under the net concept, working capital is represented by the excess of current assets over current liabilities and is the amount normally available to finance current operations. Economists like Lincoln and Saliers feel that (a) in the long run, what matters is the surplus of current assets over current liabilities; (b) it is this concept which helps creditors and investors to judge the financial soundness of an enterprise; (c) what can always be relied upon to meet the contingencies, is the excess of current assets over the current liabilities since this amount is not to be returned, and (d) this definition helps to find out the correct financial position of companies having the same amount of current assets.

A small-scale manufacturing unit can't succeed without an adequate supply of raw materials to process or without cash to meet the wage bill or without the capacity to wait for the market for its finished products or without the ability to grant credit to its customers. Similarly, a business unit without merchandise to sell, is virtually good for nothing. Working capital, thus, is the life-blood and controlling nerve-centre of a business. Sufficient reserve of working capital contributes a lot in raising the credit-standing of a corporation, because of better terms on goods purchased, reduced cost of production on account of the receipt of cash discounts, favourable rates of interest on bank loans etc. Next, sufficient working capital is always in a position to take the advantage of any favourable opportunity, either to purchase raw materials or to execute a special order or to wait for better market position. Thirdly, the general soundness. The firm's capacity to meet all reasonable demands for cash without inordinate delay is a great psychological factor to improve the all-round efficiency of the business and to create self-confidence in the persons at the helm of affairs in the company. Finally, during slump, the demand for working capital, instead of coming

down, shoots up. A good amount is locked up in the inventories and book debts. Concerns having ample resources can tide over that period of depression.

"Working capital management" is a significant part of business decisions and is of major concern to the financial manager. Accomplishment of value maximisation goal depends essentially on prudent working capital decisions. A firm is required to carry adequate amount of working capital so as to carry on the productive and distributive activities smoothly. Thus, holding adequate amount of raw materials in stock ensures uninterrupted production activity. Likewise, sufficient stock of finished goods has also to be maintained in anticipation of future demand and for this purpose this firm would need funds. Goods usually sold on credit do not return cash immediately. The firm will have to arrange for funds to finance accounts receivables for the period until they are collected. Besides, a minimum level of cash is required for the ordinary operations of the enterprise, for availing of the business opportunities and for absorbing shocks of business vicissitudes. However, these assets will have to be maintained at appropriate level because both surplus or shortage of working capital is detrimental to the financial health of the enterprise. Normally, the excess of current assets is constraint to the all-out pursuit of earnings. The smaller the liquid resources held in the firm to satisfy operational requirements, the more can be invested in income-producing fixed assets. This does not mean that the firm should reduce the holdings of current assets even below the minimum required level, because that would mean interrupted production and sales. This is because of frequent stock outs and inability to sell goods on credit to marginal customers due to restrictive credit policy and loss of credit standing in the market, owing to failure of the firm in the past to pay creditors in time.

A clever financial manager has to manage working capital in such a way as to maximise profitability of the firm without impairing its liquidity. Further, he has to set optional level of working capital. Setting optional level of working capital requires an exercise of determining that level of current assets where total cost of liquidity and cost of illiquidity is minimum.

"Working capital management" is particularly more important to the small firm. A small firm may reduce its fixed assets requirements by renting or leasing plant and equipment, but there is no way it can avoid an investment in current assets. The financial manager should therefore, devote considerable time to manage current assets.

A firm manages the working capital needs by the following actions.

1. Forecasting the funds: Changes in the firm's operations can have almost immediate effects on the working capital needed. For example, if suppliers increase the price of raw materials, more money will be tied up in inventories than previously. Even if the firm can increase the price for its final product, it will need additional working capital to support its sales efforts. An alert manager will observe operating activities and estimate the level of working capital required for future period.

2. Mobilising funds : Once the needs have been estimated, the manager must acquire the necessary funds from the best source, for the lowest cost, and for the time period involved. The effective management of working capital is the primary means of achieving the firm's goal of adequate liquidity. It is, after all, the working capital - cash, marketable securities, receivables, and inventory - that will be available in the near term to pay bills and meet obligations. It is the net working capital -

excess of current assets over net current liabilities - that helps measure the degree of protection against problems that might cause a shortage of funds.

Thus, managing working capital requires a number of actions, including the following:

1. Monitoring Levels of Cash, Receivables and Inventory

On a daily or weekly basis, the manager should know how much funds are tied up in each of the current asset accounts. The following questions should be asked. Are the amounts in each account appropriate? How do the balances compared to previous balances? to the firm's standards? and to the industry norms? Any deviation from expectations should be investigated.

2. Knowing Percentage of Funds in Current Accounts

Working capital represents a large investment for most firms. Some 30 to 60 percent of a firm's total assets are up in current accounts. The manager should be aware of the relationship between current and fixed assets and any changes in the percentage of funds in current accounts.

3. Recording Time Spent on Managing Current Accounts

Although estimates vary, somewhere between one-third and two-thirds of the financial manager's time is spent on managing the working capital. A knowledge of how much time each member of the finance department spends with current accounts can offer an insight into the effectiveness of working capital management.

Factors influencing level of working capital requirements?

The following factors are normally considered to determine the amount of working capital needs.

1. Size of the Firm: Normally, the size of a firm will determine the quantum of working capital. A small firm may use extra current assets as a cushion against cash-flow interruptions. Usually, small units have cash inflows from fewer sources than larger firms and hence are more affected by the failures of a few customers to pay on time. Large scale units with many sources of funds may need less working capital as compared to total assets or sales.

2. Activities of Firm: If a firm must stock a heavy volume of inventory or sell on relatively easy credit terms (net 75 for example), it has greater needs for working capital than firms providing services or making cash sales.

3. Availability of Credit: A firm with readily available credit from banks can get the loan with less working capital than a firm without such credit.

4. Attitude towards Profit: Since all funds have a cost, a relatively large amount of current assets tends to reduce a firm's profit. Some firms want extra working capital and are willing to suffer small costs. Other firms maintain an absolute minimum of working capital at all times in order to gain the full profits from operations.

5. Attitude towards Risk: The greater the amount of capital, particularly cash and marketable securities, the lower the risk of liquidity problems. Firms that do not wish to incur even the slight risks of liquidity deficiencies may keep extra cash. Other firms accept the risks to earn profits and may not always keep adequate cash to bills on time.

Fixed and Working-Capital Needs of Small-Scale Industrial Units

The finance is required for small-scale industries to meet the following. (a) the expenses incurred for the installation of plant and

machinery and acquisition of land and buildings and for a proper maintenance of machinery against depreciation, obsolescence, renovation modernisation and expansion, (b) for the purchase and stocking of raw materials, inventories of goods, and goods in the process of manufacture. Generally, fixed capital requirements are covered by medium and longterm loans and /or equity participation, while working capital needs are met by short-term advances.

QUESTIONS

1. What is Capital Structure? what factors influence capital structure of a small scale unit?
2. What is Term finance? what are the sources of term finance for a small entrepreneur?
3. What is Working capital? Explain why working capital management is important for a small firm?
4. List out the factors influencing the level of working capital requirements of a firm.

UNIT - IV**Chapter - 5****HUMAN RESOURCES IN SMALL BUSINESS**

Management of human resources represent the personnel function of the business unit. Managing personnel involves assessment of manpower requirement, organising their recruitment and selection and designing their compensation package and sustaining their motivation.

MEANING OF MANPOWER PLANNING

We know when intelligent people start on a long trip, they always make plans. They decide, for example, where they are going and how they plan to get there. Generally, the longer the trip, the more they plan. Small scale enterprises also need to draw plans to take various decisions and perform multifarious activities. In simple words, plans are basic to any sort of enterprise - whether large, medium or small. This includes the plans or provisions for manpower also. Unfortunately, manpower planning is a neglected area in the Indian context especially in small-scale industry. Under manpower planning, the management needs to ask itself two basic questions of:

(i) What kinds of people do we need? (ii) How many people do we need? We discuss these two questions one by one.

What kinds of people are needed?

Before we ask this question, we must first understand the types of jobs to be filled. For example, do these jobs require someone with training in typing or short hand, or can they be done by an individual without any specialised training, but who can learn our filing system quickly and who enjoys assignments requiring attention to small details?

To answer such tricky questions in a systematic manner, enterprises often do develop job descriptions. In simple words, job descriptions are written explanations of the duties of a job, together with a list of the minimum qualifications necessary to hold the job. The use of these guides makes the selection process, to a great extent, more effective.

How Many people are needed ?

In fact, the previous question deals with the quality of personnel. This question deals with the quantity of personnel the enterprise needs. We must answer several questions to determine the number of people required for various positions throughout the enterprise. These questions include the following:

1. Is the demand for certain skills and occupations growing constant or shrinking?
2. How much work can the average person do in a specified period of time?
3. What is the level of absenteeism?
4. What is the level of turnover?

Answers to these questions go a long way towards effective planning for the manpower needs of the enterprise.

Now, manpower planning can be defined as the process by which an entrepreneur ensures that he has the right number of people and right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

JOB REQUIREMENTS

Before an enterprise makes the selection of employees, he needs to define job requirements of each task. The job requirement identification involves the following:

1. Conducting Job Analysis

This is an investigation into various aspects of a task in terms of skill, qualifications, duties and responsibilities. It covers job title, the department to which it relates, line of supervision, relationship with other jobs, types of material and equipment used, mental and manual dexterity, working conditions etc.

2. Job Description

Simply stated, job description deals with what, why, when and how tasks are to be performed. In other words, it is a written statement of work conditions, time involvement and job responsibilities.

3. Job Specification

Job specification is nothing but a description of the salient features of the person to be recruited in the specific job. It is a standard against which the salient features of the employee are matched how far he matches with the job specifications. In other words, it describes the personal qualities of the employees like their knowledge, skills, experience, qualities of leadership and decision making abilities, etc.

RECRUITMENT

After determining the manpower requirements of the enterprise and finalising job requirements of the tasks, the next problem is where to get it. This is done through recruitment. Simply stated, recruitment is a process of obtaining interested people/applicants.

Recruitment in small - scale industries is more difficult because these cannot compete with their larger counterparts in salary, fringe benefits and apparent stability. These limitations impose severe problems for small enterprises for attracting qualified and committed work force. No doubt by paying emoluments comparable to those offered

by the large units as also emphasis on promotional opportunities, the small entrepreneurs can offset, to a great extent, above mentioned handicaps. The entrepreneur should also strive hard to create a public image of his enterprise as a worthy place to work and prosper. However, this is easier said than done.

As regards recruitment in small-scale industries, the most prevalent practice exercised in small-scale units is to seek out and selected candidates rather than wait for applications as happens in the case of large-scale industrial units. Broadly, there could be two sources of recruitment in small-scale enterprises:

1. Internal Sources

2. External Sources

Let us discuss these in some details.

Internal Sources

Internal sources refer to recruitment from the present work force of the enterprise itself. If there is a vacancy in the enterprise at any time, some one already working in the enterprise is promoted or transferred, as the case may be. Filling vacancies from own existing employees boosts the morale of the employees because they look forward scope and avenues for their career advancement. Such hope for future often motivates the employees to put in their best performance. This manner of recruitment has other side also. One of the serious drawback of this manner, to mention, is that while the quality level of employees remains limited to that of the existing employees on the one hand, the advantages of inducting fresh blood are missed, on the other.

External Sources

It will not be less than correct to state that external sources overcome the limitations just mentioned above, imposed by internal sources. The various external sources an enterprise can opt for recruiting its employees can broadly be classified into:

(i) *Employees Referrals* : Many a times, the existing employees of the enterprise and other sister organisations can refer to suitable candidates. In this case, kinship, friendship and village ties of the existing employees expectedly play a major role in the recruitment process.

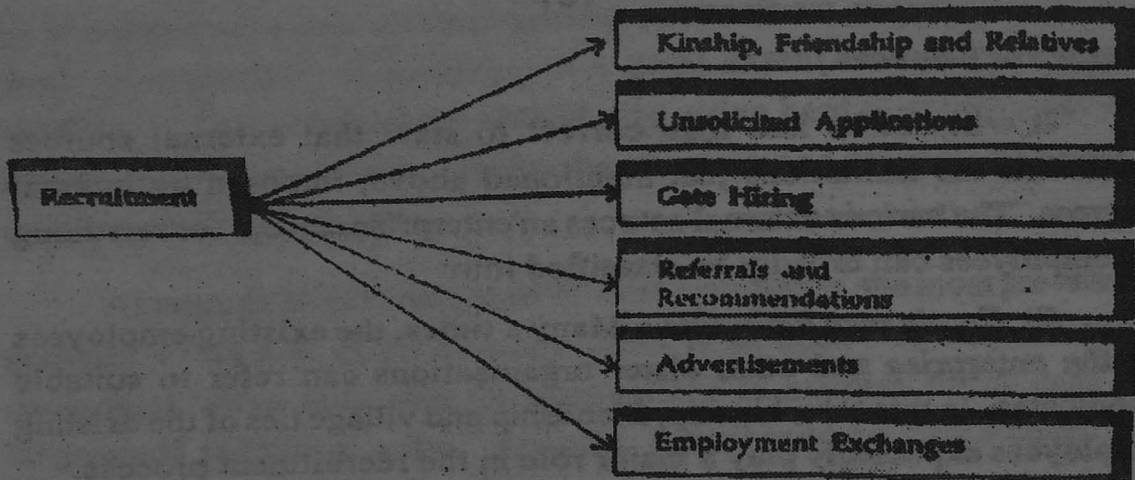
(ii) *Recommendations* : Sometimes the entrepreneurs receive recommendations from their friends and relatives to employ the persons known to them. The experience suggests that the entrepreneurs need to be cautious in considering such recommendations. The best principle in such case will be: Never hire a person to please someone, make sure that you want him.

(iii) *Unsolicited Applications* : This is one of the common manners exercised in recruiting employees in small enterprises. The enterprise receives applications and requests for jobs from several sources. The applications are kept and as and when there is a need to recruit people, these applicants are contacted, if still available.

(iv) *Advertisements* : If the entrepreneurs have sufficient time at their disposal to process and interview the candidates, they advertise their vacancies in the newspapers and other medias like radio and television. This manner ensures better choice for entrepreneurs to recruit the employees.

In actual practice, as the various research studies indicate, the job-search-methods used by small-scale industries are mainly internal in nature.

The different sources of recruiting personnel can be presented as follows:



SELECTION

Selection process starts where recruitment ends. Selection means fitting a round peg in a round hole. This is done by comparing the requirements of a job with the qualifications and experience of a candidate. Since the basic purpose of selection is to find out right kind of people to fill the available positions, an orderly and systematic procedures is, therefore, always advisable. past experience suggests that in most cases, to select both over-qualified and under-qualified people turns to be costlier to the employer/ enterprise, while selection of over-qualified people invites indignation of the employer frequently. Thus, selection is a critical function in the personnel relations in everyway.

Although, the selection procedure varies from place to place and enterprise to enterprise, we can discuss the more common methods used. However, no all enterprises are bound to use all the steps and techniques of selection which we are discussing. Instead, the enterprise should relate selection method to job success. In other words, which methods of selection best predict job success for certain types of works? The answer can often be obtained by using statistical methods called regression analysis and correlation. To find out the best available

candidate for a job, we shall now discuss some of the more common selection procedures used in small-scale enterprises in India.

Preliminary Interview

If the recruitment programme is non-selective(not trying to appeal to a special group of applicants, such as college-trained personnel or experienced carpenters), the preliminary interview is likely to be used in selection. This interview is short, often lasting for ten-fifteen minutes. The basic purpose of the preliminary interview is to determine an applicant's suitability for further consideration. Basic questions such as age, present occupation, and experience are asked in this interview. The kind of work available in the enterprise is explained by the interviewer. If there is felt some chance of successful placement, the applicant is allowed to continue the rest of the selection procedure.

Application Blank

Application blank is commonly used in the selection process. Questions like work history, educational level, work experience and the type of work applied for are asked in the question blank. From a perusal of this record, the employer can form a broad idea about the applicant's potential. Application blanks contain questions related to the probability of job success. The format used for this purpose varies from enterprise to enterprise.

Psychological Test

Most psychological tests administered in the enterprise are paper-and-pencil. The test taker is given a series of questions and a choice of two or more possible answers to each question. He/she must then choose the answer that he/she feels correct.

Psychological test generally includes the following:

Aptitude Test: This is a test measuring intelligence of the applicant and his ability to learn certain skills.

Performance Test: It is a test that measures one's current knowledge of a specific subject.

Personality Test: Under this test, an applicant's personality traits such as dominance, sociability and conformity are measured.

Interest Test: As the name of the test itself denotes, this is a test that measures one's interest in various fields of work.

References

Nowadays, almost all good enterprises ask an applicant for the names of others who can tell them something about his past. Frankly speaking, personal references are generally unreliable and biased. Many a times, these reference persons are not well qualified to judge one's past work performance. Therefore, the names of previous employees and teachers are considered more reliable and unbiased in giving judgement about his educational qualification and all previous jobs held.

As regards contacting references, it is considered best to do so in person. Compared to a written request for information, a telephone talk is better. The reason is not difficult to seek. A telephone talk or face contact becomes more frank in giving an ex-employee's past performance. This is a general observation that many people become reluctant to put up uncomplimentary remarks about anyone in writing. In addition, one's tone of voice, and facial expression can reveal a great deal about his true opinion of someone.

Interview

After all the above formalities are over, an interview is conducted with the applicant. It is an interview that facilitates an interviewer to evaluate more effectively the applicant's potential for success in the particular job. In spite of being somewhat subjective, the interview as a method has been the most commonly used selection device in all types of organisation.

In fact, the basic objective of an interview device should be to measure those qualities and traits that cannot be better measured by some other devices like testing or application blank. Thus, by definition, an interview is, in part atleast, subjective since the more easily measurable qualities/ traits are measured by other techniques. The traits probed by an interview include social poise, general appearance and the ability to express oneself effectively.

Physical Examination

A physical examination is usually placed towards the end of the selection process. It gives the enterprise current information about the applicant's physical health at the time of selection or hiring.

Placement

Once a new employee has been selected, he/she is finally placed to perform the specific job. Here, the employer needs to consider a few points before expecting work from the new employee. It is well known to all of us that the first few days in a new position are usually, the hardest. A new comer should be properly introduced to his fellow workers, shown the location of facilities available, informed of regulations, if any, and encouraged to ask any needed information. Considerations and reasonable attention to these points prove a good investment in personnel relations.

Orientation

The employees selected should be made familiar with their enterprises' objectives and activities and acquainted with their jobs. Thus, begins their orientation period to learn about their work environment. Henceforth, starts the training and development of newly selected employees to which we turn our attention in the subsequent section.

TRAINING AND DEVELOPMENT

Qualified employees can be provided training within an enterprise. First, the enterprise can select the best employees available. Second, those already working in the enterprise can be trained to make the use of their full potential. In reality, these both approaches are the parts of the same process. The reason is that, once an individual is selected for some work, he should undergo some training, regardless of his qualifications.

Training may be defined as any procedure, initiated by an enterprise, which intends to foster and enhance learning among the employees working in the enterprise. So far as the training in small-scale units is concerned, the owner himself takes the responsibility for developing and conducting the training programmes with an objective to enhance the employees job-related skills and knowledge. The period of training varies depending upon the nature of work and the previous experience or training of the employee.

Objectives of Training

Like all other enterprise activities, training function should also first have its objectives clearly spelled out. The objective of training and development is to alter the thinking and behaviour of the employees in the direction desired by the management of the enterprise. In fact, a training programme must be tailored to the needs of a specific company

for its specific positions. If the training programme does not accomplish the organisational needs, it may be worse than useless. In any case, the training is necessarily for the following objectives:

- (i) To improve job performance by enhancing employees' knowledge and skill.
- (ii) To prepare employees well competent to discharge the new responsibilities.
- (iii) To impart skill how to operate the new machinery and equipments.
- (iv) To reduce the wastages and accidents.
- (v) To build a second line for more responsible positions at a later stage.

Characteristics of a Successful Training Programme

The main characteristics of a training programme are:

- (i) Its objectives and scope are clearly defined.
- (ii) The training techniques are related directly to the needs and objectives of the organisation.
- (iii) It employs accepted principles of learning.
- (iv) As far as possible, it is conducted in the actual job environment.

The enterprise should know, what training should be imparted to whom, by whom and where?

Methods of Training

The methods of training available to employees in small-scale enterprises are:

1. On-the-Job-Training (OJT)- The oldest and most commonly used training technique in the small-scale units is the on-the-job training. It consists of the employees receiving training from their supervisors or other departmental members while they perform their regular jobs. In this way, the employees are both producers and learners. Such training is considered essential on every job available in the enterprise. Particularly where skills can be learnt quickly, where the number of employees to be trained at a time is small and where there is adequate time at disposal to train the employees, this technique can be used alone. Yes, under other circumstances, it should be accompanied by other techniques also to make it more effective to train the employees.

Training programme of this kind consists of the following three stages:

(i) Demonstration : The job is demonstrated to the employees and each step involved in the process is explained thoroughly. It is important to mention that the demonstration should be done slowly so that the employees/trainees could understand the procedure and could ask questions as and when they are in doubts during the demonstration period.

(ii) Performance : The trainees perform the task what they have learned in the step one.

(iii) Inspection : In the third or final step, the work performed by the employees, as mentioned in the step two, is inspected and immediate feedback on the job performance of the employees is taken.

2. Apprenticeship Training: Apprentice training combines formal classroom learning and on-the-job experience. This kind of training programme is provided mainly in the technical cadres, Plumbers, electricians and bakers.

3. Job Rotation: This kind of training is particularly beneficial in the case of small-scale industries where each employee has a thorough understanding of the different functions performed in the enterprises. In this training programme, employees are moved from job to job for a few hours a day, a few days or several weeks. Thus, if one employee is absent, another employee can well fill in the absence. One of the great advantages of this type of training is that, it helps employees combat the problem of monotony, tiredness, fatigue and boredom because of varied work experience.

4. Outside Training: The above types of training programmes are internal or inside training, given in the enterprise itself. There are such types of training programmes also which are given outside the enterprise. The outside training consists of the employees being trained at schools/institutes outside the enterprise. Broadly speaking, training is a continuous process of the employee development. Besides above mentioned types of training programmes, periodic internal training sessions, coaching on the job, attendance at manufacturer and distributor sponsored courses, seminars, etc. provide additional training facilities.

REMUNERATION AND BENEFITS

'Employees' remuneration expressed in terms of wages is of critical concern to personnel relations in small-scale industry. Whereas wages represent income to the employees, they represent costs to the employer and potential taxes to the Government. Practically speaking, wages constitute the largest part of the employees' purchasing power and, therefore, have an important bearing on the level of economic activity. Besides, wages constitute one of the important factors around which most of the labour problems revolve. As regards labour in organised i.e., large industrial sector, he is politically awakened and is ready to protest to secure his rights. But, the situation in unorganised i.e., small-scale sector is deplorable. Wages in the small sector are around one-

half of those in the large organised sector though labour productivity does not so differ between them. In other words, the high wages in the organised sector have been described as 'islands of prosperity, when compared to the poor wages or 'oceans of distress' in the small-scale sector.

The wages in small enterprises are not fixed on well-established norms and principles of equal pay for equal work. In fact, wage fixation is usually done based on the bargaining strength of the employer and employee in which the former dominates the scene. Even knowing wide differences in wages between the two sectors, employees in the small sector/unorganised sector, are not in the position to voice their concerns in an effective manner, due to their poor bargaining strength.

Employee Benefits and Services

In addition to remuneration, i.e., wages to the employees for their work done, enterprises nowadays also pay for a wide variety of supplementary items-often called 'fringe benefits'. These benefits are the indirect payments made to the employees in addition to their direct wages and salaries. The Employers' Federation of India considers fringes as those benefits provided by the employer (a) which materially add to the welfare of the employees either during the tenure of their service or after retirement, and (b) the expenditure which does not form part of his normal wages and other allowances. Days are gone when the fringe benefits were of secondary importance. Over the period, these benefits have risen to such an extent that these now command a significant proportion of the total employee compensations. All the fringe benefits can broadly be classified into four groups:

- (i) Premium payments consisting of Bonus
- (ii) Payments for Overtime
- (iii) Payments for not worked
- (iv) Payments for employee welfare

Let us examine how these benefits and services are extended to employees in small-scale industry in India based on the findings from some contemporary research studies.

Premiums and Bonus: The dictionary meaning of bonus is 'money given in addition to an agreed compensation'. Payment of festival bonus, for example, to the employees is such an 'Additional payment'. This concept was practically legalised by the payment of Bonus Act, 1965. This act applies to every factory and to every other establishment employing 20 or more persons. A minimum of 30 days' working in a year qualifies an employee for bonus payment. As the Act applies to only those establishments where 20 or more employees are employed, this provision has employees in small-scale sector at a considerable disadvantage. Further, the employer do not register the names of their employees on the pay roll to avoid legislative provisions. Therefore, the representatives of All India Trade Union Congress have been urging the Government to extend the coverage of the payment of Bonus Act to every employed found themselves not sound enough to afford the payment of bonus due to their limited resources. According to Rao's study, 73% employers were not paying bonus to their employees for various reasons.

Overtime: As per the provisions of the Factory Act, 1948, any worker who works for more than 9 hours in any day or for more than 48 hours in any week, is entitled to overtime. The rate of overtime is twice of his ordinary wages. Unfortunately, the research studies report that most of the small business owners did not pay for overtime as per the legislative provisions. Either the employees were given a cup of tea or food for their overtime or at normal rates only, if given at all. That is why, it is said that violation of legislation, i.e., labour laws in small-scale industry is not only easy and natural but cheaper also.

Payments for Time not Worked: The employees are also given paid benefits for time not worked. Time-off benefits include payments for rest periods, wash-up time, clothes-change and get-ready times. Compared to large scale industry, bristling with the problems of too many holidays, the small industry restricts paid holidays to its employees weekly off days amounting to 52 days along with 10 other days in a year. In addition to these, emergency situations like death of any family member, illness, marriage are also viewed sympathetically and workers are allowed to avail paid holidays but restricted between one and five depending on the emergency. The provisions of the Factory Act are not observed.

Welfare Payments: In view of adverse effects of illness and injury of the employees, their compensation is of great importance. Therefore, employees welfare is not considered a waste but an excellent investment which produces returns much greater than the costs involved. Realising it, the Government of India, after Independence, passed several acts e.g., the Factories Act, the Employees State Insurance Act, and the Industrial Disputes Act, to ensure the employees welfare.

However, the actual experience shows that these legislative provisions are seldom observed in small-scale industries. As most of the small businesses do not provide medical benefits to their employees. Even in case of employment injuries, no compensation is paid to the injured ones. The provisions of the Provident Fund Act, 1952 and the payment of Gratuity Act, 1972 were also grossly neglected.

In addition to above fringe benefits, many enterprises also provide multivarious services that the employees relish and desire also. Important among these are loans and advances to the employees on festive occasions like Diwali, Dussehera, Pongal, etc. Facilities like housing and conveyance are rarely provided and that too for name sake only. In

any case, extension of these various benefits/facilities contribute significantly to improve the employer-employee relation in the enterprises.

QUESTIONS

1. What is Manpower planing? How can a small firm go ahead with its manpower planning activities?
2. What are the sources of recruitment of man power for a small scale unit?
3. What are the various methods of selecting manpower for a small business organisation? Explain
4. How can a small business firm assess the training needs of its employees?
5. What are the essentials of a successful training programme?

Chapter - 6

REGULATORY LAWS

Modern business aims at social advantage also and therefore, is characterised by the applicability of various laws to it. These laws have been passed by the Central and State Governments to regulate the running of the business enterprises, whether large or small. It is necessary for the business owners, i.e. the entrepreneurs to have an enlightened awareness about these laws, if not an expert knowledge of the same. With this in mind, below is given the summarised guidelines of the different laws of which the business owners should be aware of.

The Factories Act, 1948

Objectives: The main objectives of the Factories Act, 1948 are two. First, it aims to ensure adequate safety measures and promote the health and welfare of the workers employed in the factories. Second, it prevents hapazard growth of factories through the various provisions relating to the final approval of the project plans before a factory is actually created.

Scope and Coverage: The Act has a quite wide scope and coverage of all aspects relating to factories in the country. These are the regulations of proper working conditions, ensuring the basic minimum requirements for safety, welfare, working hours, annual leaves of workers, covering all categories of workers working in the factory and applicable to all factories using power employing 10 or more workers and employing 20 or more workers without using power on any day of the preceding 12 months.

Main Provisions: In order to ensure the factory workers welfare, the Act has made and amended various provisions from time to time. The main provisions of Act consist of compulsory approval, licensing and registration of factories, various health and safety measures,

employment of women and children, annual leaves, accident and occupational diseases, penalties, etc.

The Industrial Disputes Act, 1947

Objectives: The main objective of this Act is to provide a machinery for peaceful establishment of workers' committees to promote cordial and harmonious relations between the employers and the workers. The Act also aims at to inquire into any matter connected with an industrial dispute, to refer individual disputes to grievance settlement authority, to prevent illegal strikes and lockouts, to prevent unfair labour practices and to provide for the payment of wages from date of award till final decision in the court.

Scope and Coverage: The Act applies to all industrial and commercial establishments employing one or more workers, but it does not apply to those who are employed in administrative and managerial capacities.

Main Provisions: The scope and the coverage of the Act are wide and varied. The main provisions of the Act include definition of an industry, industrial disputes, lockout, retrenchment, workman, provision for workman, provision for works committees to settle the disputes, referring disputes for adjudication, notice of change in employment conditions, protecting workmen during pendency of proceedings, retrenchment and layoff compensation, recovery of money due from the employer and obligations and rights of the employers and the employees.

In 1982, an amendment was made in this Act by which it has been made obligatory for an employer to set up a 'Grievance Settlement Authority' in an establishment in which 50 or more workmen have been employed in the preceding twelve months. It shall be responsible for settling industrial disputes relating an individual workman.

The Minimum Wages Act, 1948

Objectives: The main objective of the Act is to determine the minimum wages in certain employment in the industry and trade where labour organisations like trade unions are either non-existent or ineffective.

Scope and Coverage: The Act is applicable to all employees engaged to do any work whether skilled or unskilled, manual or clerical in a scheduled employment including outgoing workers, fixation of minimum wages, etc.

Main Provisions: The main provisions of the Act include fixing and revising of minimum wages and ensuring the rights of the employees working in the enterprise.

The Employees' Provident Fund Act, 1952

Objectives: The objective of the Act as a piece of welfare legislation is to make provisions for the security in old age after the employee retires or for his dependents in the case of his early death.

Scope and Coverage: The Act covers all factories and establishments employing 20 or more employees, all persons employed directly or indirectly through contractors in any kind of work. The Act can be applicable to the Central government establishments employing less than 20 workers, if the majority of the workers so desire.

Main Provisions: The main provisions of the Act relate to the contributions towards employee's provident fund by the employees and the employer. The contribution varies from 8.33% to 10% of basic salary for different types of industries. It prohibits reduction in wages, prescribes agencies for investment of funds, specifies advances which are non-refundable, maintenance of accounts records, nomination rules, payment rules, annual statements and obligations and rights of employees and employer.

The Workmen's Compensation Act, 1923

Objectives : The Act aims at securing the payment of compensation by employers for injuries sustained by an employee in an accident occurred either in the course of or out of employment.

Scope and Coverage : This Act is applicable to all over India to factories, mines, plantations, transport establishments and construction works. However, the Act does not apply to those establishments which are not covered by the Employees' State Insurance Act. It is also not applicable to casual workers working in the factories.

Main Provisions: The Act has made clear provisions for making the employers liable to pay compensation, if there is a personal injury caused to an employee/worker; the injury is caused by accident, the accident occurred out of and in the course of employment and the injury has caused either the death of the employee or partial or total disablement for more than 3 days. The Act also provides for compensation for occupational diseases which are given in the Schedule III to the Act. There are also provisions in the Act, regarding time and method of payment of compensation, provision for appeal and obligations and rights of workmen and employers.

The Shops and Establishment Act

Objectives: This Act is passed with an objective to provide statutory obligations and rights to employees and employers in the shops and establishments, i.e., the major segment of unorganised sector in the country.

Scope and Coverage: As regards the scope of this Act, it has an all India coverage. Of course, every State has framed its own rules for the application of the Act. The Act is applicable to all persons employed in or about a shop or an establishment with or without wages. However,

the employers' family members, if any, do not come within the purview of this Act.

Main Provisions: The varied provisions of the Act include compulsory registration of shops and establishments, as the case may be, within 30 days of their commencement of work and in the case of closure, a communication within 15 days from the closure of the establishments. The other provisions are what in the case of Factory Act, 1948 with regard to the workers working in the factories. To mention, there are provisions for hours of work per day and week, guidelines for rests, opening and closing hours, closed days, holidays and overtime, annual leaves, maternity leaves, medical and casual leaves, maintenance of registers and records and obligations of employees and employers.

The Payment of Bonus Act, 1985

Objectives: The Act aims at providing statutory obligations for the payments of bonus to the employees in certain establishments on the basis of profits or productivity.

Scope and Coverage: The Act applies to all over India to a factory as defined in Section 2(m) of the Factories Act and also to the establishments employing 20 or more persons on any day during a year. It covers all workers whose salaries do not exceed Rs.2,500 per month. The Government can extend the coverage of the Act to those establishments also employing less than 20 persons but not less than 10 persons by giving 2 months notice.

Main provisions : The Act provides for the eligibility for bonus, payment of minimum and maximum bonus, time limit for payment of bonus, deductions from bonus and obligations and rights of employers and rights of employees. Any employee who has worked for not less than 30 working days in an accounting year shall be eligible for bonus.

The payment of Gratuity Act, 1972

Objectives : The main objective of the Gratuity Act is to provide social security measures to provide some protection to persons employed in industrial and commercial establishments. Gratuity is nothing but a lumpsum payment in recognition of the long and meritorious services rendered by an employee.

Scope and Coverage : The Act is applicable to all factories, mines, oil fields, plantations, ports and railway companies and all shops and establishments in which 10 or more persons are employed. A shop and establishment once covered under the Gratuity Act, will continue to be covered even if the number of employees, however, falls below ten at a later date.

Main provisions : The main provisions of the Act, are (i) payment of gratuity to all those employees who have put in 5 years of continuous service at the time of termination of services, which may be due to death, disablement, resignation or retirement. (ii) The gratuity is payable at the rate of 15 days' wages last drawn for every completed year of service or part thereof in excess of six months, (iii) Rules regarding the maximum limit of gratuity to be paid (iv) Nomination for the payment of gratuity and obligations and rights of employees and employers.

It is important to mention that gratuity is not liable to attachment in execution of any decree or order of any civil, revenue or criminal court.

REGULATORY FRAMEWORK FOR SHOPS AND COMMERCIAL ESTABLISHMENTS

Regulation of working and employment conditions of workers in shops and commercial establishments is the responsibility of State

Governments. Therefore, every State Government has enacted legislation for this purpose. Each State Government has framed its own rules for carrying out the legislation and has also set up its own inspectorate for enforcing its provisions. There is considerable similarity in the Acts enacted by various State Governments.

Shop : It means any premises where goods are sold either by retailer or wholesaler where services are rendered to customers and includes an office, a store room, godown, warehouse or work place whether in the same premises or otherwise mainly used in connection with such trade or business, but does not include a factory, commercial establishment or a shop attached to a factory, where employees are allowed the benefits of the Factories Act. The main provisions of the Delhi Shops Establishments Act are summarised below:

Establishment : It means a shop, commercial or trading or banking or insurance establishment, an establishment of administrative service in which persons employed are mainly engaged in office work, residential hotel, restaurant, boarding or eating house, cafe or any other refreshment house, theatre or any other place of public amusement or entertainment and includes such establishment for the purpose of this Act.

The Act covers all establishments irrespective of their size, turnover or persons employed. It also does not prescribe any salary limit for qualifying any person for being covered by this Act.

Registration : The Act provides for compulsory registration of all shops and establishments from the date on which the establishment commences work.

Working hours : No employee in any shop or establishment is allowed to work for more than nine hours in any day and 48 hours in any week.

Rest Interval : The period of work of an employee is to be so arranged each day that no person has to work for more than five hours before, he has an interval of at least half an hour.

Opening and closing hours : The State Government is authorised to prescribe, opening and closing hours and change these from season to season..

Weekly holiday : Every establishment has to remain closed for one day of the week. In addition to the weekly holiday, every establishment has to remain closed on three of the national holidays each year.

Over time : The total number of overtime hours should not ordinarily exceed 120-150 per year. Wages for overtime work have to be paid at double the ordinary rate of wages.

Restrictions are imposed on employment of children, young persons and women.

Leave : Every employee is entitled to prescribed leaves with wages per year. Women employees are entitled to maternity leave. Every employee is entitled to sickness and casual leave also.

Health and Safety : The Act provides for keeping the shop or establishment clean and free from effluvia sufficiently lighted and ventilated, and taking necessary precautions against fire. Suitable arrangements have also to be made for the supply of drinking water to employees.

Notice of termination : An employee must be given sufficient notice before his services is terminated. Similarly, an employee must give one month's notice before leaving service.

Registers : Every employer has to maintain such registers and records and display such notices as may be prescribed or required by the State Government.

In most of the States, the Workmen's Compensation Act, 1923 and the payment of Wages Act, 1936 have been made applicable to shops and commercial establishments.

QUESTIONS

1. What are the objectives and scope of the following Acts :

(a) The factories Act, 1948

(b) The Industrial Dispute, Act, 1947.

(c) The minimum wages Act, 1948.

(d) The Employees provident Fund Act, 1952.

(e) The workmen's compensation Act, 1923.

(f) The payment of Bouns Act, 1985.

2. Give an account of the regulatory frame work for shops and commercial establishments in India.

UNIT - V**Chapter - 7****PROBLEMS OF SMALL BUSINESS**

Small scale sector in India although play an important role in economic development, the organizational pattern of these industries places them at a distinct disadvantage vis-a-vis the large scale sector. This disadvantage has given rise to various problems which the small scale industries have to contend with. These problems are discussed below.

1. MANAGEMENT PROBLEMS

Numerous small businesses suffer from underlying weaknesses, which lead to mistakes that can adversely affect their return on investment. These management problems tend to arise when the business is expanded beyond the limits, a particular manager can cope with. The three principal areas of weakness in small businesses that are management centered, carrying trouble are :

a. Growth for growth's sake

The most common course of trouble is the widely held belief that the only road to success and the solution to all problems is growth of sales. It seldom is. Growth is not synonymous with capitalistic success. In fact, shrinking the number of products or product lines is usually the surest route to better profit and higher return on investment.

The mania for growth is commonly expressed in the battle to increase sales. Standard methods of accounting tend to encourage the belief that, higher profits automatically follow from higher sales. Several standard accounting techniques tend to mislead those who accept standard cost allocation as gospel.

b. Inadequate Cost Analysis

Inadequate product-cost analysis blinds managers to the losses incurred by adding new products willy-nilly. Usually, there are one or more products or product lines that should be dropped.

c. Lack of Balance Sheet Concern

Another common failing is gearing the operations to the income statement and ignoring the balance sheet. Lack of concern with cash flow and the productivity of capital employed can be fatal to the small company that is on its own. Managers tend to seek new funds instead of making better use of those they already have.

Management deficiencies among small scale enterprises exist on several counts. Most of the small entrepreneurs undertake all the managerial functions by themselves primarily because they could not afford to employ managerial personnel. Secondly, the routine matters leading to virtually crisis management leaves little time and scope for organized objectives decision - making.

A long term perspective is found missing and tendency to look for short term gains seems to cost SSEs growth and sustained profitability. Planning as a tool to organize oneself and manage resources are paid scant attention.

2. FINANCE & CREDIT FACILITIES

Finance has been the foremost problem faced by the small scale enterprises. The problems are of finance for the purchase and stocking of raw materials, finance for holding finished products till they are sold out and finance for paying wages. Small scale producers are very poor who have little to offer as security. So, they have to depend on money lenders for finance and at times they have to make 'distress sales'.

The small scale industries need term capital to upgrade and modernize across the industries and differences of groups in order to

expand. It is reported that adequate institutional finance through term loans, are not available to finance the same. One of the major impediments in getting adequate finance from the banks and financial institutions is due to the lack of trained personnel, leading to improper assessment of the loanee's requirements. Adhoc denials and reductions from sanctioned funds are common features.

The financial problems of small scale units are passed on to the suppliers by delaying payment. This drives away good suppliers, which in turn will affect the quality and promptness of suppliers. SSIs are most affected by this delay & the disunity among units is fully taken advantage of by the bigger units.

A severe credit squeeze can at times put sincere management in an awkward situation of managing recovery. Many units get into further financial problems by borrowing from outside at exorbitant interest rates to tide over minimum financial needs.

Financial Management Issues

Entrepreneurs of small scale enterprises though start well, somewhere, in their day-to-day operations embrace failures. The reasons identified mostly are attributed to the financial mismanagement. Entrepreneurs are put up in a situation, where in they have a feeling of well being, but, the consolidation of account in the year end may indicate a disastrous situation, loss or almost being on the verge of losing. Sometimes, opportunities may come, but, they can not be utilised. The reasons for such inadequacies are, inadequacy of funds & rigidity on the part of their bankers. Most often, the bankers don't cooperate due to entrepreneur's inability to maintain accounts and his inability to present his case strongly. All such problems can be overcome successfully if the entrepreneur pays some attention to financial management issues.

1. Entrepreneurs need to realize that the surest test of their business success is sufficient and growing profits i.e., profits that are

growing from year to year. They have to determine the need for profit as well as cash as lack of sufficient cash at the right time may compel a fundamentally sound business to fail.

The soundness of a business can be measured through breakeven analysis and the cash needs can be estimated through cash flow analysis. These analyses should be employed as proper planning tools to determine and ensure sound business health.

2. The performance of various business activities relating output to input need to be measured by establishing performance standards to have a firm sense of direction, only then the business units can be guided to achieve its set goals. The performance need to be evaluated regularly and periodically followed by suitable corrective action to ensure smooth running of the business.
3. The accounting principle of conservatism is to be adopted in situations of uncertainty, in situations where a clear-cut decision is not possible, more often in issues relating to valuation, timing etc. This principle would save entrepreneurs from awkward situations to save the fate of entrepreneurs and their reputation. It would also add intense strength to the financial position and condition of the business.
4. The associated costs of funds raised and invested in various assets of the business need to be taken care of, as if the cost goes up profits will come down leading to decline of the return on investment. Therefore, analysis and supervision is required at the pre-investment state i.e. before the assets are purchased and at the post-investment stage i.e. after the assets have been purchased. To maximize the return on investment, every business firm should ensure maximum utilization of each and every asset. More commonly pitfalls are observed in the day-

to-day operations of a small business in the management aspects of assets like the land and building, trade debts (bills receivables) cash etc. These pitfalls have to be avoided by the entrepreneurs.

The measurement of receivables has always been a contentious issue in small scale units. Small scale entrepreneurs do not usually like to write off bad debts (uncollectible accounts) and reduce these from the balance sheet as well as the income statement lest this reduce profits. In order to impress bankers and other creditors they prefer to carry on trade debts even after years of commencement of their business. Such practice needs to be eliminated.

As general rule, mainly when business is good, credit period should be reduced and business is dull, credit on sales may be extended. It may sound simple but would not be so easy in actual practice.

Cash, as a necessary evil acts as a lubricant that facilitates day-to-day operations. Cash is a use of funds as it appears on the asset side of the balance sheet. Whatever cash one is having, whether in hand or in bank, comes from funds, which are liabilities. Carrying too much cash increases cost of funds and carrying too less would mean facing embarrassment in business owing to inability to make payment of expenses due. One must carry the right amount of cash which would be an amount just sufficient to enable him/her make payment of all expenses as and when they fall due.

The profit & Loss account should be prepared more frequently to measure the success of day-to-day operations of the business and timely corrective action should be taken in case there is a loss.

5. Good financial management is one, which ensures that a business enterprise is live and kicking. That means, the enterprise is growing. Business growth is dependent on solvency, credibility, ability to raise funds, a vailability of

resources and liquidity. Solvency is the ability of the business firm to pay off all debts, which is measured by tangible net worth (=own funds or net worth – Intangible assets).

Solvency must be maintained at all times to keep the business running. Credibility is the bedrock on which all business whether small, medium or large run. Maintaining credibility in business ensures sustainability and growth.

Credibility ensures availability of adequate finance that leads to business viability. Credibility has to be established by the entrepreneurs which ensure finance, reputation and hence business growth.

A business enterprise using borrowed capital along with its own capital is said to be "Trading on equity". If equity is more than borrowed capital, it is described as, "Highly geared". Trading on equity should be kept within healthy limit. Entrepreneurs have to hold on their debt-equity ratio and should not allow it to worsen even if attractive opportunities are before them.

While insolvency is faced only once in the life of a business liquidity is a short term solvency. Liquidity is the firm's ability to meet expenses incurred in the short run. This is most essential for maintaining the firms credibility and potential growth.

To tide over liquidity crunch, the entrepreneur should prepare projected cash flow statements on a monthly basis & take corrective action well in time.

For a comprehensive management of finance of a business enterprise, both assets and liabilities are required to be managed. Managing liabilities is as important as assets management. Many a firm is known not to have progressed well because it could not manage its accrued expenses or trade credits.

The accrued expenses are those expenses like rent, salaries and wages etc that get accrued but are not payable. These are important sources of funds. When an enterprise requires funds, the entrepreneurs should not pay off the expenses till they become payable. Payment can be withheld till mutually & legally acceptable due dates and such funds can be utilised for day-to-day operations. At the same time, care must be taken to see that on the due dates, sufficient funds are available to make payments and maintain business credibility.

The use of credit from suppliers is also an important source of meeting short-term requirements of funds. Entrepreneurs can utilize this facility without losing supplier's good will or compromising on other trade terms.

7. Most small business firms do not maintain accounts. In the absence of proper accounts, losses are incurred, pilferage take place: dues remain uncollected and most operations are conducted in the most unbusiness like manner. Survival and success of a small business depends on a healthy relationship between the three players, i.e, the bankers, the entrepreneurs and the accountant. If entrepreneurs can not afford to appoint a full-time accountant, they should employ a part-time accountant or maintain accounts himself. All successful businessmen realize that in the absence of adequate book-keeping and account they do not have a correct picture of costs, expenses, sales, trade debts, trade credits, tax liabilities, profits and return. It helps in establishing credibility with bankers, tax authorities and others. Every businessmen must regularly maintain proper accounts to ensure financial planning, corrective action and profits.

2. MARKETING PROBLEMS & ISSUES

Marketing is the biggest problem affecting SSI performance. Besides finance, marketing is the key element that explains the closure of small scale industrial units. In the initial stages of setting up of units, many entrepreneurs do not choose the right product, partly due to lack of proper information and guidance and partly due to the bandwagon approach followed by them. This leads to marketing problems affecting the health of enterprises.

Small units produce low priced products compared to large scale units and such products are within the reach of the masses. However, the quality and reliability of SSI products are not acknowledged. Most of the small units do not possess any quality mark for their products that reflect on their complacency and lack of entrepreneurial spirit for growth. Those units that produce quality products are unable to expose their quality tag due to the heavy promotional expenditures.

There is more intense intra-se competition within the small-scale enterprises than with large scale enterprises. When compared to large scale enterprises, small scale enterprises are poor in all the competitive marketing attributes like packaging, branding, distribution promotion and after sales services. In direct competition, small scale enterprises are helped by their low prices. They are also relying mostly on provision of credit.

The costly handicrafts like Kashmiri Shawls and Banaras silk could not find markets because of the elimination of princes and Zamindars. Even in the available market, the products do not get their price due to the operation of middlemen. Further, the cottage industries are faced with the problem of costly transport and power supply in some cases.

Simply speaking, all marketing problems, the small scale industries face are related to the 4 P's of marketing mix i.e. product, price, place and promotion.

Entrepreneurs need to understand the meaning and importance of marketing orientation and the need for market assessment. Marketing orientation will help them to offer those products or services to the market that would satisfy some needs and wants of the customers. The exercise of market assessment will help in understanding the nature and extent of demand, the competitive situation and the prevailing trade practices.

The identification of target market segments helps an entrepreneur in tuning the marketing efforts, the requirements of the customers, and in reducing wastages. Decisions on the four basic elements of marketing mix viz product, price, place & promotion and searching for a well-kint mix that has good consistency within its elements should be a major concern to entrepreneurs.

3. OPERATIONAL MANAGEMENT PROBLEMS AND ISSUES

Production management has traditionally been associated with manufacturing. Today, it encompasses a large variety of other activities concerned with the conversion of inputs into outputs using physical resources, so as to provide the defined utility / utilities to the customers, while meeting the organizational needs of effectiveness, viability and quality.

Almost all units in small scale sector carry on production with outdated and obsolete implements and the method of production is also much antiquated. They do not have the facilities of research and training to increase the output with modernized equipment. There are some institutions like All India Spinners Association, Khadi and village

Industries Development Board which attempt to impart training to workers to improve the quality of production. Small Industries Seraget Institutes, to some extent have removed the handicaps of small scale industries.

Most of the small-scale industries depend on large scale industries for the raw materials. The handloom industry is wholly dependent on the supply of yarn from cotton mills. In the absence of proper organization channelising the flow of materials from the large scale sector, the cost of raw materials becomes very high and the artisans have to depend on middle-men, who take away the cream of the craft.

The level of technology used by most entrepreneurs is rather poor and achievements with regard to several programmes launched by the government for its up gradation are moderate. Some units, with their process of manufacturing being manual, produce poor quality products, which in turn affect the image of the small scale sector and most of the smaller units cannot afford testing facilities. Some of the important operational management issues that need special attention are :

1. Entrepreneurs should be concerned with increased productivity i.e. achieving higher levels of output at the least cost of input. Products selection, the key strategic decisions of any organization that commits itself to the product/products selected for long time to come. The organization should attempt to match the changes in environment, technology and consumer requirements while finalizing the design.
2. "Proto types" are generally the hand made models, which concretize the product formulation ideas. These prototypes need to be developed and thoroughly evaluated. Small entrepreneurs can avail the services of NSIC, which has regional prototype Development Training / Testing centers.

3. Location of plant is strategic decision that has to be arrived at after careful deliberations of various factors involved. It is a one-time decision and can not be retracted without paying heavy penalties. Decision will have to be taken based upon the following considerations:

- i) Proximity to market,
- ii) Nearness to raw materials,
- iii) Adequate power and water arrangements and other infrastructural facilities.
- iv) Transportation facilities and their costs.
- v) Labour and wages.
- vi) Laws and wages.
- vii) Incentives, Land costs, Subsidies, backward areas
- viii) Climate
- ix) Ecology and environmental factors.
- x) Political conditions.

4. Plant layout is an analytical and economic arrangement of various facilities like workmen, machines, equipment, materials, plant services, incoming and outgoing materials, tools and intermediate storage and inspection areas with a view to achieve their maximum utilization. The facilities layout is a strategic decision, since, a layout once implemented cannot be changed easily. Some of the advantage of a good layout are

- i) Higher productivity
- ii) Economic utilization of floor space and other operating areas such as loading & unloading

- iii) Better supervision and control.
 - iv) Better working environment and employee safety.
 - v) Minimum material handling.
 - vi) Lower investment in plant and building with better maintenance facility.
5. Production and operation management study will be complete only with the knowledge of industrial engineering, commonly called, "work study" which is a generic term for those techniques particularly, 'method study' and 'work measurement' which are used in other examination of human work in all its contests. Industrial engineering has gained importance throughout the world. It tells the entrepreneur the way to improve productivity.
6. Production planning and control is an effort to optimize the process of conversion of raw materials into finished goods. There has to be an integrated function to derive maximum benefits of planning. It must be realized that the procurement and inspection of raw materials, the inventory levels of in process and finished goods quality control, plant maintenance, production costs, manpower and training and the machinery equipment, all have their influence on the planning of production operations.
7. Quality implementation should be treated as a total organizational effort. As a strategic decision, it is the responsibility of all functional managers viz., purchase, production, warehousing (storage) and the transportation and packaging.

4. HRD PROBLEMS

Small Scale Industries find it difficult to indentify, recruit and retain skilled technical and management personnel. They employ fresh hands, train them on the job to become skilled workers. Many a small scale unit complain that a significant number of workers, once they gain skills, leave them for greener pastures.

Though industrial relations in small scale enterprises are generally cordial, high turnover of labour and absenteeism are two important points of concern for entrepreneurs. This is attributed to lower wages being paid in the small scale sector.

To upgrade technical and management skills, in-service training is not being sought. Most of them depend on the job experience, which includes the entrepreneurs themselves.

QUESTIONS

1. What are the Financial management problems and issues confronting small scale industrial units in India.
2. What are the Marketing problems of small scale Industries?
3. What are the Operational management issues of small scale industries?
4. What are problems and issues of developing human resources by small scale industries?

UNIT - VI**Chapter - 8****SMALL BUSINESS PROMOTING INSTITUTIONS**

Small enterprises contribute in a big way, offering productivity and quality at par with the medium and large scale industries. The small-scale sector has grown in the country in terms of production, exports, quality and is still growing. A number of organisations have been set up by the government to provide assistance to small-scale industries. In certain cases, small-scale industries are protected against competition from large industries. Package of assistance are provided to small-scale industrialists by a large number of organisations operating at national and state levels. Schemes of various organisations involved in providing assistance to small enterprises are discussed here.

Small Industries Development Organisation (SIDO)

SIDO is policy-making coordinating and monitoring agency for the development of small scale entrepreneurs. It maintains a close liaison with government, financial institutions and other agencies which are involved in the promotion and development of small scale units. It provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to SSI units. It has a network of 25 Small Industries Service Institutes, 20 branch SISIs, 41 Extension Centers, four Regional Testing Centers, one Product and Process Development Centre, three Footwear Training Centers and five Production Centers.

Function

The main functions of SIDO are coordination, industrial development and industrial service. Some important functions are:

1. To assess the requirements of indigenous and imported raw materials and components for the small scale sector and their supplies;
2. To collect data on consumer items which are imported and to encourage the setting up of new units by giving them coordinated assistance;
3. To prepare model schemes, project reports and other technical literature for prospective entrepreneurs;
4. To assist and advice the Controller of Capital Issues in regard to the issue of import licences and the imposition of import restrictions on various products whose manufacture has already been undertaken indigenously by the existing or new units;
5. To secure reservations of certain products for the SSIs.
6. It provides an all-India policy and programme for the development of small-scale industries.
7. It coordinates the policies and programmes of various State Governments;
8. To serve as a connecting link between different States and between the States and Central Ministers, the planning Commission and the Reserve Bank and the State Bank.
9. To coordinate the programme for the development of large and small scale industries;
10. To coordinate the programme for the development of Industrial estates and ancillaries all over the country.

1. SIDO provides various Consultancy Services

It provides a wide range of technical services to the small scale sector on improved technical processes, production planning, selection

of machinery, use of modern machines and processes, preparation of factory layouts and designs, materials handling etc.

2. *It provides modernization assistance to the small scale industries*

SIDO conducts a programme of modernization for small industries and others on the basis of concentration in certain areas. It includes motivational programmes - seminars, workshops industrial clinics, modernization courses, etc. In addition to that area, potential studies have been conducted with a view to assist selected small scale units in implementing the suggestions made by various study teams.

3. *Consultancy Services, Management Development & Training*

SIDO provides consultancy services and training in various disciplines to help improve the competitive strengths of small entrepreneurs. It also provides them the latest developments in their respective fields including the field of management, cost accounting, personnel management, documentation, etc.

SISI and SIDO maintain a panel of experts in the respective field of specialization. The payment of consultancy fees and travelling expenses to the consultancy are made by the SIDO. The entrepreneur and SIDO share the fees by 75:25 percent respectively.

4. *Entrepreneurial Development*

The SIDO undertakes the development of entrepreneurship by involving the organisation in training programmes for engineer entrepreneurs, unemployed graduates, diploma-holders and science graduates. It conducts courses for entrepreneurial development amongst students, the war widows, scheduled castes / scheduled tribes, ex-servicemen, etc.

5. Government Stores Purchase Programme

The SIDO arranges for the participation of SSI units in the government stores Purchase Programme. It provides them the necessary guidance, market advice, and assistance in fulfilling various formalities. Generally, the NSIC will register units and issue competency certificates to them. The Bureau of Public Enterprises announced certain concessions for small units and participated in their purchase programme.

SIDO also provides the export consultancy services, the identification and encouragement of small units processing the necessary equipment and skills to undertake the production of items having export potential, and the organisation of training facilities, workshops and seminars.

6. Economic Information System

Various types of economic information are also provided by SIDO to help the entrepreneurs, artisans and technocrats for selection of new items of production. They also help in the expansion of their existing activities by furnishing them the requisite economic information.

The SIDO undertakes the study of the impact of reservation of selected items for the small-scale sector. During 1980, SIDO has completed evaluation studies of 150 reserved items. The committee on the reservation of items was reconstituted with the DC (SSI), representatives of the Department of Industries the DGTD and the Planning Commission as members. A number of reviews, undertaken by the Standing Committees, of the SIDO have established that while it is feasible to manufacture a number of sophisticated items in small-scale sector, a comprehensive support must be offered to this sector.

The SIDO undertakes the implementation of the various recommendations of the Small-Scale Industries Board and other Committees.

SIDO assists the Ministry in regulating the Central assistance to the States for the Development of small-scale industries. **SIDO** monitors the progress in the expenditure incurred by the State Governments on the development of small-scale industries.

SIDO effects the co-ordination on an all - India level in special fields of development like Industrial Estates, Ancillaries etc.

The **SIDO** takes care of relation with public and private undertakings and with the DGTD, etc., to ensure a proper utilization of the existing production capacity in the small scale sector.

Among other things, the **SIDO** recommends a pattern of small-scale industries development for the country as a whole. **SIDO** also indicates the lines of manufacture which are suitable for the small-scale sector. It also helps in the form of promotion, procurement of raw materials and machinery and technical advice from time to time.

The SIDO performs the following important functions.

1. It approves the production programme of specifically selected industries.
2. It examines the requirements of indigenous and imported raw materials and components for the small-scale sector and to arrange for their supplies:
3. It arranges for securing reservations of certain products for the small scale sector.
4. It helps to procure the foreign collaboration, both technical and financial for the small scale sector and to work in close liaison with the Development Wing (DGTD) with a view to arrange the distribution of raw materials from indigenous production centers in the country.

5. It recommends the cases for import licenses and the imposition of restrictions on the import of various products;
6. It gathers information on consumer items which are imported and encourage the setting up of new units by giving them co-ordinated assistance; and
7. It prepares model schemes, project reports and other technical literature for prospective entrepreneurs.

SIDO also provides Industrial Extension Services which include Technical Advisory Service, Management Consultancy Service, Economic Information and Economic Investigation Services, Marketing Assistance, and provision of training facilities to help the small industries sector. It will help the SSI units to improve its productivity and competitive strength. Already the SISI (Small Industries Service Institute) functions as the apex agency, providing various industrial extension services to small industries. The SISI coordinates its activities with the State Directorates of Industries. The extension centers are tiny service institutions, in the sense that their activities are limited to one or more specific industries within a definite area, which is generally a small part of a State.

The SISI is headed by the Director, who is generally a technical expert, and coordinated by a number of competent technical officers of the rank of Deputy Directors, Assistant Directors and Field Officers, who have specialized in various fields. The development of technical staff in the Institutes depends upon the concentration of particular industries in a State.

National Small Industries Corporation Limited (NSIC)

The NSIC was set up in 1955 with the objective of supplying machinery and equipment to small enterprises on a hire purchase basis and assist them in procuring Government order for various items of stores.

The NSIC has its regional officer at Delhi, Calcutta, Bombay, Madras & Gauhati, and branches in the southern zone at Bangalore, Hyderabad, Pondicherry, Coimbatore, Cochin & Trissur. There is a computer training centre at Tenkasi, Tirunelveli District in Tamil Nadu and Marketing development centers at Madras & Cochin.

The main functions of NSIC are:

- (1) To develop small scale units as ancillary units to large scale industries.
- (2) To provide SSIs with modern machinery on hire purchase basis;
- (3) To assist small enterprises to participate in the "store purchase programme" of the central government;
- (4) To assist small industries in marketing facilities;
- (5) To distribute basic raw materials through their depots;
- (6) To import and distribute components and parts to actual small scale users in specific industries; and
- (7) To construct industrial estates and establish and run prototype production cum training centers.

The NSIC has taken up the challenging task of promoting and developing small scale industries from the initial stages and has adopted an integrated approach to achieve the socio-economic objectives.

In order to increase the efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Centers, the NSIC has opened its offices at Bhopal and Raipur in Madhya Pradesh. The NSIC has appointed development executives and field inspectors in the backward areas of the western region in close co-operation with DICs and other developmental agencies in the area.

During 1995, the NSIC has received 77966 proposals for Rs. 875.6 crores for hire-purchase assistance of which, 50971 proposals for Rs. 454.3 crores were accepted and machines valued at Rs. 270.9 crores were delivered. NSIC has also delivered machines valued at Rs. 37 crores under equipment leasing scheme. The NSIC registered 25013 SSI units under single point registration scheme for undertaking supplies under the marketing assistance. NSIC also trained 33751 persons in key facilities. During 1995, the NSIC's paid-up capital reserves and assets stood at Rs. 73 crores, Rs. 3.1 crores and Rs. 240 crores respectively.

The NSIC encourages small industries almost from scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. NSIC has created entrepreneurial establishment and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernization and / or diversification. The small unit, always suffers from short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units.

The Corporation provides support to small scale industries in the following areas:

1. Helps small scale units in meeting the requirements of 'Term Loan' for the purchase of imported and indigenous machinery and to supply the same to the entrepreneurs on easy hire purchase terms.

The supply of machines of hire-purchase is in a way, an offer of funds, an offer of foreign exchange facilities and a combination of both. NSIC takes upon itself the entire procedure starting from issue of an enquiry to the suppliers to delivery of machines, arranges foreign exchange, obtains import license, opens letter of credit and looks after the customs requirements and clearance of machines.

Applications from units registered with State Directorates of Industries or DIC, which are covered by the term "small scale industry" as defined by the government of India are eligible to avail the facilities.

This scheme was most popular in 1950s and 1960 because prior to the nationalization of the major commercial banks, this was the only agency rendering this service to small sector units.

Entrepreneurs wishing to avail this scheme have to pay earnest money varying from 15 to 30% of value of machinery in addition to a service charge varying from 2 to 5% depending on the value of machinery and the location of the unit. The full hiring value of the machine along with interest unpaid falling due after one year of purchase are payable in 13 half-yearly installments – first installment falling due after one year of the installation of the machinery. In case of furnaces, boilers, coil storage, plants tyre retreading, conning, electroplating etc. the loan has to be returned in 9 installments.

Certain special categories of entrepreneurs, such as technocrats, physically handicapped persons, defense personnel and those belonging to SC/ST are charged concessional rate of earnest money, interest and service charges.

2. Securing government orders for the small scale industries and marketing of small industries products based on consortia approach.
3. Export of small industries products and developing export worthiness of small scale units.
4. Enlisting competent units and facilitating their participation in Government stores purchase programme.
5. Developing prototypes of machines, equipments and tools which are then passed on for commercial production.

6. Providing technical assistance and training in several technical trades.
7. Supply and distribution of indigenous and imported raw materials.
8. Selling and distribution of indigenous and imported raw materials.
9. Securing co-ordination between small scale and large scale industries, so, that the former produces goods required by the latter.
10. Underwriting and guaranteeing loans from banks and other sources and,
11. Establishment of market Development centers to :
 - a) Play a catalytic role in providing exposure to the products of small scale units, assist their direct and indirect marketing.
 - b) Provide permanent show room facilities and.
 - c) Create consumer confidence in the products of SSIs. Prescribed application forms are available with the NSIC and its regional office / branches at the state to avail its facilities. These have to be submitted to the NSIC or its branches or its branches at the State / District level through the Deputy Director / Regional / Jt. Director of Industries or through the respective District Industries Center. The application has to be accompanied by the latest quotation from the manufactures or the suppliers of machinery approved by the NSIC. The NSIC pass 90% of the cost of machinery to the suppliers and the balance 10% after getting certificate of satisfaction from customer. NSK also supplies machinery to existing profit making and

financially viable small scale units (with permanent registration as an SSI units) on easy leasing term.

Under this scheme, during 1980-81 to 1989-90, more than 1,00,000 small scale units purchased machinery worth of Rs.14,668.29 lakhs through NSIC. NSIC has also proposed to start financial services to provide working capital to the small scale units.

SISI Small Industries Service Institutes (SISI)

Established in 1956, this institute - one in each state - has been rendering very useful service to small scale industries. The assistance rendered by the institute and its extension centers in Tamilnadu may be listed as follows:

1. Technical Consultancy and Advisory Service

This relates to selection of profitable small enterprises, choice of appropriate machinery and equipment, appraisal of the technique of manufacture, processing of raw materials, adoption of recognised standards of testing, quality of performance of the small industry products and encouraging small units to participate in Government Stores Purchase Programme. The Institute explores the possibility of setting up small scale units to supply parts / components to large scale industries.

2. Common Facility Service

This includes supply of designs and drawings and provision of workshop facilities for the manufacture of dies, jigs and fixtures and components.

3. Training Facilities

Training is provided for workers in basic trades in the workshops attached to this Institute and its extension centers, to increase their productivity and this helps to encourage development of small scale industries in rural areas.

Training in various aspects of industrial and business management is also provided for the benefit of small industrialists.

A training course in small industries entrepreneurship and management of young engineers with emphasis on the practical aspects of small industries management is conducted. This can be an instrumental in creating a new class of qualified entrepreneurs.

4. Testing Facilities

Basic testing facilities (both physical and chemicals) are provided in the laboratories and workshops attached to this Institute at concessional rates.

5. Marketing Assistance

Economic information on the nature and extent of the market for specific products are collected and furnished to small industrialists at their request. The Institute offers export promotion service by counselling on export procedures and trends in foreign markets.

Market survey for specific product of a small enterprise is also undertaken on a regional basis to enable the small industrialist to increase the sales his products in the region.

The special information bureau, called the Tamilnadu Sub Contract Exchange is a Central Information Centre, where, machine capacities of small scale industries are registered and enquiries from large industries for the manufacture of different components are passed on to registered small scale units having space capacity, so as to enable them to feed the requirements of large scale units.

The institute conducts economic survey of particular areas to ascertain their industrial potentialities.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

In response to the long standing demand of small scale sector in India, Small Industries Development Bank of India (SIDBI) was set up, by an Act of parliament, as an apex institution for promotion, financing and development of industries in the small scale sector and for co-ordinating the functions of other institutions engaged in similar activities. SIDBI, was set up as a wholly, owned subsidiary of Industrial Development Bank of India (IDBI), commenced its operations during 1990 with its head office at Lucknow and a network of 5 regional offices and 21 branch offices throughout the country.

Small Industries Development Bank of India (SIDBI) under its charter, has been inter alia, assigned the task of being the main purveyor of term finance to the small scale sector in the country. Small scale sector industrial units, artisans village and cottage industrial units in the tiny sector and small road transport operators are extended financial assistance mainly by way of refinance through primary lending institutions (PLIs) viz., States Financial corporations (SFCs), state industrial development corporation / state industrial investment corporations (SIDCs / SIICs) and banks which have a wide network of branches. Term loans extended by eligible PLIs to small industrial project, irrespective of the location and form of organisation of the units, are eligible for reference assistance.

The activities of SIDBI are as under:

- (a) Refinancing of loans and advances extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them.
- (b) Discounting and rediscounting of bills arising from sale of machinery to, or manufactured by, industrial concerns in the small scale sector.

- (c) Extension of seed capital / soft loan assistance under national equity fund, Mahila Udyam Nidhi and seed Capital schemes through specified lending agencies.
- (d) Granting direct assistance as well as refinancing of loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small scale sector:
- (e) Providing services like factoring, leasing etc; to industrial concerns in the small sector;
- (f) Extending financial support to National Small Industries Corporation for providing leasing, hire-purchase and marketing support to SSI units.

The immediate thrust of SIDBI is or :

- i) initiating steps for technological upgradation and modernization of existing units
- ii) expanding the channels for marketing the products of SSI sector in domestic and overseas markets;
- iii) Promotion of employment oriented industries especially in semi-urban areas to create more employment opportunities to urban and cosmopolitan areas.

Eligibility for Reference

Term - loans extended by eligible institutions to small scale industrial projects irrespective of the location and form of organisation of the unit are eligible for refinance assistance.

SIDBI provides refinance at concessional rate of interest in respect of loans to certain special category of borrowers.

Presently, the institutions eligible for availing of refinance facilities from SIDBI comprise 18 state financial corporations (SFCs),

26 State Industrial Development Corporations / State Industrial Investment Corporations, 76 Commercial Banks, 196 Regional Rural Banks (RRBs), 11 State Co-operative Banks and 542 Central and urban Co-operative Banks.

Procedure for availing loan / refinance

Intending borrowers have to approach eligible institutions. All offices of SIDBI process refinance proposals, as the operations are fully decentralized, under their respective jurisdictions. The eligible institutions first sanction assistance to the borrowers then, refinance sanction and disbursements are sought by the institutions from SIDBI.

Schemes of Assistance

SIDBI offers various schemes for the development of small entrepreneurs throughout the country. Details of individual schemes are as follows :

1. General Scheme

For all forms of organisation in the small scale sector to set up new small scale units or expansion of existing units, SIDBI provides refinance for industrial loans for small and village industries under this scheme.

2. Composite Loan Scheme

The scheme covers composite loans up to Rs.50,000, sanctioned to artisans, village and cottage industries and small industries in the tiny sector by eligible institutions. Assistance is provided for equipment and for working capital. For artisans, assistance is available irrespective of location while for others the project should be located in areas with population not exceeding 5 lakhs.

As the loans can be covered under the credit Guarantee scheme of DICGC, eligible institutions have been advised not to insist on collateral security.

3. Scheme for SC/ST & Physically Handicapped Entrepreneurs

This scheme provides assistance for equipment and / or working capital irrespective of location.

4. Specific schemes

For all forms of organisation in the small scale sector for the purpose of acquisition of

- a) In-house quality control facilities
- b) Pollution control equipment
- c) Computers
- d) For indigenisation/import substitution.
- e) For manufacturing and renewable energy / energy saving systems etc.

The scheme has been drawn to encourage SSI units to establish facilities for testing and quality control and other facilities with a view to ensuring better market acceptability of their products. The assistance is provided by way of term loan normally not exceeding Rs. 7.5 lakhs per project.

5. National Equity Fund Scheme (NEF)

SIDBI introduced this scheme, in order to meet gap in equity and with the objectives of providing equity type of support to small entrepreneurs of tiny, small scale sector and, for rehabilitation of viable sick units in the SSI sector.

Eligibility

- a) Entrepreneur setting up new projects in the tiny and small scale sector for manufacture, preservation or processing of goods and, existing sick SSI units undertaking.

rehabilitation, if they are found to be potentially viable by the financing institutions, are eligible for assistance.

- b) All industrial activities and service industries, except road transport, hotel, restaurant and hospital / nursing homes, are eligible for assistance under the scheme.
- c) The unit should be located in village & town having population up to 5 lakhs (15 lakhs in the case of hilly areas and north - eastern region). However, in the case of the rehabilitation proposals, the project could be located in towns / villages with population up to 15 lakhs.
- d) New projects with of any margin money or seed / special capital assistance under the schemes of central or state government, SFCs and other state-level institutions or banks (except central / state investment subsidy) will not be eligible for assistance.
- e) The rehabilitation proposal should conform to the norms prescribed under the rehabilitation refinance scheme of SIDBI for SSI sector.
- f) The unit should be registered with state directorate of industries / appropriate statutory authority.
- g) The unit should be eligible for assistance under the refinance scheme of SIDBI. Sanction of refinance in respect of term loan for the project by SIDBI is a prerequisite for extending equity type assistance under the scheme.
- h) The total fund requirement of projects in the form of equity assistance under NEF, term loan and working capital will be provided by a single agency. Central / state subsidy may be retained for meeting working capital requirement.

7. **Special scheme for assistance to ex.servicemen (including widows of exserviceman), sponsored by Director General (Resettlement), Ministry of Defense, Government of India to set up small industrial projects including services industries and transport activity which are eligible for finance as per SSI norms.**
8. **Seed capital scheme for technically or professionally qualified entrepreneurs or entrepreneurs with relevant experience or skills in industry / business to meet the gap in prescribed promoter's contribution or in equity.**
9. **Single window scheme - under the scheme refinance is provided for working capital loan availed by entrepreneurs from SFCs/ SIDCs for setting up new projects in SSI / tiny sector.**

New tiny and small scale unit whose project cost does not exceed Rs. 10 lakhs and the total working capital requirement at the normal level of operation is up to Rs. 5 lakhs, provided the unit has been sanctioned term loan for fixed assets and working capital loan by the same institution are eligible for the scheme. Under this scheme, permissible term loan for fixed assets and working capital loan up to Rs. 5 lakhs are provided. There is no commitment charge. The debt-equity ratio should be 3:1 for the total venture outlay (i.e. cost of the project plus total working capital requirements) after taking account the amount of investment subsidy / incentive available for the project. The current assets are to hypothecated towards security.

State Financial Corporations (SFCs) and the twin-function SIDCs are the eligible financial institutions under this scheme.

10. a) Scheme for women entrepreneurs for setting up SSI units. The scheme has been formulated with the twin objectives of :

- i) Providing training and extension services support to women entrepreneurs and,
 - ii) Extending financial assistance on concessional terms to enable them to set up industrial units in the small scale sector. All projects in SSI sector including cottage, village and tiny industries, promoted and managed by women entrepreneurs are eligible for concessional assistance under the scheme.
- a) Mahila Udayam Nidhi (MUM) scheme for women entrepreneurs to meet gap in equity while setting up new industrial projects in the small scale sector as also for service activities which are eligible for finance as per SSI norms.

The scheme is operated through SFCs / twin function SIDCs.

Under this scheme, soft loan limited up to 15% cost of project is provided and the service charge is 1% per annum of soft loan.

10. Schemes of Incentives for Exports

Besides providing export incentives, to promote export capability of SSI units, the Small Industries Development Bank of India (SIDBI) has announced the formation of the Technology Development and Modernization Fund (TDMF) with an initial amount of Rs.200 crores.

The new scheme is to encourage existing unit to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities. Units which are already exporting

their products or having the potential to export atleast 25% of the amount output by adopting modernization scheme would be eligible for assistance from the fund, provided, they have been in operation for atleast 3 years and are not in default to banks / financial institutions. Assistance under the scheme is available for

1. Acquisition of capital equipment.
2. Cost of know-how (including designs and drawings)
3. Upgradation of process technology with thrust on quality improvement.
4. Improvement in packaging
5. Cost of total quality management (TQM) and
6. Acquisition of ISO 9000 certification.

Those seeking assistance under the scheme are required to make a minimum level of promoters contribution of 20% of the project cost. SIDBI's assistance would be in the form of direct term loan or contribution of equity share capital of the company or both.

Assistance will be need based subject to a minimum of Rs.10 lakhs per unit. SIDBI has proposed to charge its prime lending rate for the term loan sanctioned under the scheme with no up front fee.

11. Equipment refinance scheme for SSI units in operation for atleast 4 years with dividend record during preceding two accounting years and not in default to institutions / banks.
12. Refinance scheme for modernization of small scale industries. The primary objective of the scheme is to encourage industrial units overcome the backlog of modernization and to adopt improved and updated technology and method of production and to prevent mechanical and technological obsolescence. Modernisation may include replacement or renovation of plant

and machinery or acquisition of balancing equipment for fuller and more effective utilization of installed capacity.

13. Scheme for small road transport operators for owing not more than six vehicles to meet expenditure towards cost of chassis, body building, initial taxes / insurance and working capital. Second hand vehicles are not eligible for assistance.
14. **Bills rediscounting scheme :** SIDBI's assistance to small scale sector flows through its scheme of rediscounting of bills / promissory notes arising out of sales of indigenous machinery to purchaser – user on deferred payment basis on special concessional rates of discount / rediscount for purchaser – users as well as seller manufactures in this sector. There is no minimum limit for transaction under the scheme. The facilities under the scheme are available for purchase of machinery for expansion, diversification and modernization, New SSI units can also avail of the facilities under the scheme for purchase of machinery. An advance down payment of 15% is usually insisted upon under the scheme with a reduced norm of 10% applicable for commercial vehicles and textile machinery. The latest discount / rediscount rates applicable for small scale sector are as follows :

	Flat rates for Bills / Promissory notes of enexpired Usance of 6 months and over	
	Rediscount (% p.a)	Discount (% p.a)
Nomal *	10.25	11.50
SEBs / SRTC's	10.50	11.25
Winery / Brewery / Malt	12.50	13.50

* Applicable to SRTO also.

1. Refinance Scheme for setting up Industrial Estates. This scheme is for SIDC's corporate and co-operative & accredited NGO's approved by KVIC. This scheme is for development of industrial estates with proper infrastructural facilities exclusively for SSI units.
2. Scheme for infrastructure development
3. Refinance scheme under ADB line of credit.
4. Foreign currency refinance scheme.
5. Refinance Scheme for rehabilitation of small scale industries.
6. Scheme for marketing activities.
7. Scheme for medical profession
8. Scheme for tourism related activities
9. Scheme for professionals
10. Scheme for sub-contracting units
11. Scheme for specialized marketing agencies etc.

NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) is an apex body established by the Ministry of Industry, Government of India, for coordinating and overseeing the activities of various institutions / agencies, engaged in entrepreneurial development in small industry and small business.

The activities of the Institute include evolving model syllabi for training various target groups; providing effective training strategies, methodology, manuals and tools; facilitating and supporting central / state government and other agencies in executing programmes of entrepreneurship and small business development; conducting such

programmes for motivators, trainers which are not commonly conducted by other agencies and above all, helping develop to entrepreneurial culture in the society. The Institute is also the secretariat for the National Entrepreneurship Development Board which is the apex body to determine the policy for entrepreneurship development in the country. The Institute, therefore, performs the task of processing the recommendation made by the board.

The policy directions and guidance are provided to the Institute by its Governing Council, whose Chairman and Vice-Chairman are the Union Minister for Industry and Union Minister of Industry and Union Minister of State for Industry, respectively. The Executive Committee of the institute consists of five members including the Additional Secretary and Development Commissioner (SSI) as its Chairman, and the Executive Director of the Institute as its member - secretary. The Executive Committee executes the policies and decisions of the Governing Council through its Executive Director.

The Institute is presently located in NSIC - PDTC Campus, Okhla Industrial Estate, New Delhi 110 020.

NATIONAL INSTITUTE FOR SMALL INDUSTRY EXTENSION TRAINING

The National Institute for Small Industry Extension Training (NISIET) was established in July 1962 at Hyderabad. The objectives of the institute are :

- (i) To arrange for supervision and plan training for persons engaged in the development of small-scale industries and management activities;
- (ii) To arrange for sponsors and plan research programmes relating to the development of small - scale industries; and

- (iii) To enter into and execute technical assistance agreements with international organisations for the provision of services for the development of small-scale industries.

Among, other things, the NISIET was established to "accelerate the growth and development of small -scale industries through training, research and service activities" directed towards improved development methods and better management brought about by a more efficient extension of modern knowledge.

NISIET's programmes cover mainly three aspects, viz, development, management and extension; and in each of these area, it has three functions, viz., training, research and services. Details of the programmes envisaged in the three areas and the three functions are given below:

Three Areas

1. Development

Under this aspect, the NISIET provides motivation and planning for the development and implementation of the Government of India's policies and programmes. It augments the role of small industry in India, and abroad; It undertakes economic investigation methods; Industrial dispersal, policy and economics.

2. Management

In this area of service, NISIET, mainly covers production management, including planning, product development, and maintenance; organisational structure; Management controls for costs, materials machinery and labour; Financial planning; Distribution management and Personnel management.

3. *Extension*

Under this area, it encourages observing, listening and responding to personal and group contacts; Communication within an Organisation; Locating, stimulating and assisting latent entrepreneurial talents; Preparation, use and testing of communication materials.

Three Main Functions

NISIET performs three functions

- a. *Training* : It provides training facilities to the State and Central Government extension officers in basic and specialized courses; Similar training at a later stage is given by managers and private consultants; Seminars and conferences for special purposes.
- b. *Research* : It undertakes research work for the development of the small-scale industries; adaptation of modern management techniques to these industries, improvement of training methods and communication materials.
- c. *Services* : It offers systematic publishing programme; supply of training and communication materials; Special consultancy service for extension programmes.

NISIET has various departments, viz., the Industrial Development, Industrial Management, Applied Behavioural Sciences, Documentation, Communication, Consultancy and Financial Management Departments. Each of these departments is involved in all the three major functions of training, research and consultancy. The Small Enterprises National Documentation Centre (SENDOC) which is part of NISIET collects, stores and disseminates technical and technological information and provides the services of library, documentation and publication.

Training Courses

The Institute provides regular training programmes, seminars / workshops for Scheduled Castes and Scheduled Tribes and DIC personnel.

The Institute introduced many new courses : Artisan Development, Strategy for Ancillary Development, Planning & Programming, General management Programme for Tiny Sector Units, Financial Statements Analysis, Economic Investigation Techniques for Small Industry Development, and Planning for Infrastructure and Industrial Development.

Seminars / workshops

The Institute has conducted a number of seminars / workshops for the General Managers of DICs.

Consultancy

For consultancy activities, the Faculty of the Institute was brought into direct contact with actual field problems and practical requirements. This, in turn, enabled the Institute to enrich its training programmes with the practical experience of the faculty and the first-hand data.

Industrial Management Course

This course is meant primarily for Government officers engaged in small industry extension programmes, though a few small industry managers and others have also been admitted from time to time. This course will upgrade their skills in management counselling so as to improve the quality of techno-managerial services available to small-scale industries.

This course covers production planning and control, work study, financial cost accounting, marketing management and other aspect of plant operations such as plant maintenance, quality control and safety.

Area Development

This course is meant for officers of District Industries centers, Assistant Directors of Industries, Economic Investigation Officers and others responsible for industrial development in districts. This course provides knowledge relating to developmental economics and analysis of industrial potential in an area. It also provides knowledge of promotional skills.

Specialised courses

NISIET also conducts various specialised and prototype courses. These advanced courses cover certain management subjects, or specialised course on certain aspects of management. These courses mainly teach the subjects of entrepreneurial motivation, management accounting, production management, marketing with export emphasis, statistical quality control, installation of cost accounting system, organisational behaviour, training methods and skills, etc.,

It provides training to the small entrepreneurs to improve their skills, increase production and earn a higher margin of profit. Training, thus provides sound footing to the entrepreneurs.

Training for Full Employment

Craftsmen : For craftsmen training, special attention has been paid to teach new skills and the up gradation of existing ones, so that craftsmen may take up subsidiary occupations during the lean seasons thereby creating a cadre of self-employed artisans, weavers, craftsmen, mechanics, operators, etc.,

Under this programme, the Rural Artisans Training, is also organised and implemented by the Development Commissioner (Small Scale Industries). The trainees are given stipend and a free set of tools and various subsidies for machinery and equipment. Sometimes, on-the-spot training is arranged if it is for a very short period.

Rural Entrepreneurs

The educated youth, falls in this category and are motivated to set up industrial and commercial ventures of their own in small and tiny sectors. A highly effective, skill-based training is given to this youth by the Industrial Training Institutes. Entrepreneurial Development Programmes are run by State Departments of Industries, Small Industries Service Institutes under the central government and some nationalized banks.

QUESTIONS

1. What is SIDO? What are the various function of SIDO.
2. Explain the role of NSIC in promoting SSIs in the country.
3. What roles SISI plays in small industries development in the country? explain.
4. What are the various financing schemes available for small entrepreneurs from SIDBI?
5. Explain the role of NISIET in promoting small scale industries in the country.

Chapter - 9

RURAL ENTREPRENEURSHIP

There has been great emphasis to develop Rural entrepreneurship by the state and central governments of India. Development of Rural entrepreneurship is a complex problem and it has been felt that it can be tackled only by the social, political and economic institutions. The sooner they are established, the better it would be for the entrepreneurial development in the rural sector and the economic growth of the country.

ENTREPRENEURSHIP IN AGRICULTURE

Since the Green Revolution, there has been tremendous increase in the opportunities for development of farm entrepreneurship. If agricultural development programme is to be speeded up farm entrepreneurship must be developed. According to Epstein there are four characteristics of farm entrepreneurship, namely education, social interaction, innovation and willingness to assume risk. The key factors affecting farm entrepreneurship are attitude towards farming, pride in farming activity, upward striving, and use of progressive techniques.

Farm entrepreneurship involves the same basic functions as entrepreneurship in business. Like an entrepreneur, a farmer also takes initiative, organises and manages the factors of production and bears the risk of uncertainty. He always fills the gaps in inputs and outputs. Secondary and tertiary sectors have become the kingpin of economic growth after the Industrial Revolution. In the agricultural or primary sector there are several social and the marginal farmers who constitute the bulk of farming community

look upon farming as a way of life, not an occupation. They do not aspire for higher income through higher agricultural productivity. They still prefer the traditional methods of farming. The cultivator takes pride in land holdings and is averse to organisational reforms. The constraint of attitude can be overcome through education, training and publicity. The cultivators have to be persuaded to respond positively to the benefits of cooperative farming.

The cost of modern technology is beyond the means of small and marginal farmers. Cooperative credit societies and banks will have to provide institutional credit at subsidised rates. The government has to subsidise the cost of farm inputs. Farmers are unable to regulate the supply of foodgrains to the market. They suffer from shortage of finances and storage facilities. The Government of India has fixed procurement prices of essential farm products. The Food Corporation of India has established a network of foodgrain procurement centres all over the country. However, transport, communication, remittance and warehousing problems hinder its efforts. There is need to develop infrastructure and electrification in rural areas. The Food Corporation of India should revamp and revitalise its procurement and distribution system.

ENTREPRENEURIAL DEVELOPMENT UNDER TRYSEM

Training for Rural Youth for Self-Employment (TRYSEM) is an antipoverty programme of the Government of India. It is primarily meant to develop entrepreneurship among rural youth. Under this programme rural youth are trained for self-employment in the fields of agriculture and allied activities, industries and services. The basic components of the programme are as follows:

- (i) identification of beneficiaries with entrepreneurial qualities.
- (ii) identification of entrepreneurial opportunities;
- (iii) training in motivation and skills;
- (iv) provision of credit facilities;
- (v) sharing of risk element by providing investment subsidy;
- (vi) helping in provision of raw materials and marketing; and

The programme was initiated in 1979. Official statistics reveal that till 1984-85 over 9.38 lakh rural youth were trained to undertake independent enterprises or seek employment in other business establishments. However, only 49 per cent of the trained youth could establish their own units and another 5 per cent of them could get employment in some established units. Majority of the units set up by the trained rural youth closed down. Anuradha Prasad has identified the following causes of failure of the TRYSEM programme in generating entrepreneurship:

1. There has been lack of clarity in thought and planning from the very start. The programme has not been designed as an entrepreneurial development programme.
2. Lack of interest in the officials concerned with the programme and indifferent attitude of the implementing authorities.
3. Beneficiaries were selected on the basis of caste with little consideration for entrepreneurial aptitude and ability. This resulted in lack of one to one match between the beneficiary and his trade. Guidelines for selection of beneficiaries were self-defeating.

4. The village youths selected under the programme lacked achievement motivation, willingness to take risk. No attempt was made in the training programmes to develop these qualities.
5. Training imparted for different trades was mechanical with the result that the trainees entered the business without being prepared for entrepreneurial activity. Training period was too short. The training institutes were illequipped and infrastructurally equip the trainees to take up self-employment. During the training no time was spent on project preparation or how to manage the financial aspects of the trade. Trainees were not involved in their individual project planning. There was blanket recommendation of projects for different trades irrespective of individual differences. There was no training in the managerial aspects of the trade. The training programmes were silent on the availability of raw materials, their costs and procedures involved in the entrepreneurial activity and, therefore, found illequipped to undertake enterprises.
6. Several trades were identified without going into the availability of the required services or without conducting feasibility studies in advance.
7. Trainees were not involved in project preparation. No consideration was given to individual needs and differences.
8. No arrangements were made to ensure supply of raw materials, equipment and marketing assistance.
9. There was no proper monitoring and evaluation of the trades undertaken and the progress made by the trainees.

The following measures have been suggested to make TRYSEM successful.

1. Beneficiaries should be selected on the basis of desirable aptitude and entrepreneurial qualities rather than on caste or income basis.
2. Training should lay down proper emphasis on the development of human resource endowment.
3. The trainees should be trained in all aspects of the trade and they should be involved in project planning and other activities of the trade.
4. Officials concerned with the programme should be trained to inculcate in them (a) confidence in their client's abilities to develop into entrepreneurs, (b) a development orientation conducive enough to shake them of the procedural compulsions, and (c) the ability to win over the beneficiaries by developing confidence in them of the official's intentions.
5. Systematic monitoring and follow-up is necessary. The beneficiaries should be nurtured rather than left alone.
6. Cumbersome procedures and inflexible action-orientation of the programme should be corrected.

To conclude, TRYSEM cannot be seen merely as a programme to train rural youth in various skills to generate self employment. The final aim should be long term help to beneficiaries to set up and run units successfully. For this the backup must be strong enough to give new entrepreneurs confidence and a sense of security.

RISK TAKING AMONG RURAL ENTREPRENEURS

Development of rural entrepreneurship requires strategies that are different from those applied in urban areas. A different orientation is required in rural sector and such an orientation should be based on an understanding of the dynamics of rural behaviour. Perception of risk is a critical factor in villagers at the time of taking any new activity. Given an individual's attitudes and biases in given set of circumstances, there is a threshold beyond which the individuals will perceive the risk of change as unacceptable. In any new activity, the degree of perceived risk varies with the unknown element and the reassuring conditions. Therefore, if new activity is to be sustained a two fold strategy is required. First, the individual himself should be developed so that he has the capabilities to reduce the perceived risk to the acceptable level. Secondly, reassuring relationship and circumstances should be created. This means preparing a group of mutually reinforcing individuals. Preparing the individual is not merely a question of the initial technical know-how. He should learn all aspects (technical, marketing, finance, etc.) of his trade. The most important aspect of developing the individual is for him to learn, with conviction, that as member of a wider group in which individuals cooperate with each other, he has a better chance of survival and success. Preparing the individual also means preparing him to manage the new relationship which arise in establishing links with agencies which can help his development. In the preparation of the individual and the group the technical and economic learning of the individual is important. But more important is the preparation of an individual to work in a group since mutual reinforcement can reduce risk perception of the individual. Thus,

the development of the people in this process is more important than the development of the activity itself.

A rural entrepreneur is subjected to the following types of risks :

1. **Technical Risks** : The risk of not knowing about the technical process, materials, etc. also the risk of not being able to overcome the technical problems.
2. **Economic Risks** : The risks of market fluctuations and change in relation to availability of raw materials and market for finished product, etc.
3. **Social Risks** : Risks inherent in the development of new relationship inside and outside the village.
4. **Environmental Risks** : Risk arising from environmental changes requires dealing with unfamiliar people, cultures, systems, etc.

These aspects of risk-taking can be used as a frame work to formulate strategies for the development rural entrepreneurship. Any engaged in this task should undertake the role of coordinating all the elements of money, materials, equipment, technical knowledge, marketing, etc. It does not mean that the agency must on its own provide all these skills and resources. But it should ensure that all these exist. For example, a bank may provide finance to a rural entrepreneur, But if other inputs and facilities are not available the bank's efforts will be of no use.

The focus in any programme of developing rural entrepreneurs should not be on achieving time bound quantitative targets (e.g., training 10,000 persons in one year) but on developing the villagers' risk taking and innovative capabilities.

DEVELOPMENT STRATEGY FOR SMALL ENTREPRENEURS

There are two opposite views about the emergence of the entrepreneurial behaviours. One group of scholars believes that entrepreneurship is most likely to emerge either under a specific set of social conditions or when the society has sufficient number of individuals possessing particular psychological characteristics. The contrary view is that entrepreneurship is most likely to occur in a situation where a set of particular economic conditions exist most favourably. Both the views remain fragmented and incomplete if considered in isolation. Experience proves that a combination of the two ideologies plays the vital role in deciding the entrepreneurial graph of a region. Moreover, the social conditions do always have bearing on the psychological characteristics of an individual.

Thus, the social and psychological factors i.e. the social conditions and economic conditions (i.e., infrastructural and the institutional factors); jointly decide the extent of entrepreneurial behaviour prevalent in a society. This is systematically set out in the positive and negative matching shown in the following paradigm.

Conditions Influencing the Entrepreneurial Trend

Social Conditions+	Economic Conditions = (infrastructural and Institutional)	Entrepreneurial Trend
Favourable (+)	Sufficient (+)	High (+ +)
Favourable (+)	Insufficient (-)	Low (+ -)
Unfavourable (-)	Sufficient (+)	Low (- +)
Unfavourable (-)	Insufficient (-)	Little (- -)

From the foregoing analysis, three types of cases can be deduced. In the first case, the highest possibility of entrepreneurial development exists where the social conditions are fully conducive to entrepreneurship and the required resources are also available. Wilken (p. 263) quotes the example of Germany where a vigorous trend of entrepreneurship could be observed because both the conditions contributed favourably.

In the second case, where the social conditions are favourable, but the resources and the facilities are not sufficiently matched, the development of entrepreneurship is much less. Under such circumstances, much has to be done in searching additional resources, if the entrepreneurship has to emerge in that region. Wilkin (p. 264) has quoted the particular cases from Germany and Japan. In Germany the objective of entrepreneurial development could not be achieved unless the government arranged the improved

supplies of capital and raw material. Similarly, Meiji government in Japan provided the improved supplies of capital, and exploited new foreign markets to compensate the lack of raw materials for heavy industries.

The third instance presents a situation, contrary to the second one, i.e. unfavourable social conditions vis-a-vis the sufficient supplies of required resources and facilities. Again the possibility of entrepreneurial exhuberance faces the same dilemma. Such an imbalance could be corrected by expanding education, motivating people and by generating additional supportive social condition, e.g. in Germany and Japan overtly the governments did not interfere with the activities of the entrepreneurs, but extended all the possible help in creating the conditions conducive to the development of entrepreneurship (Ibid, p. 265).

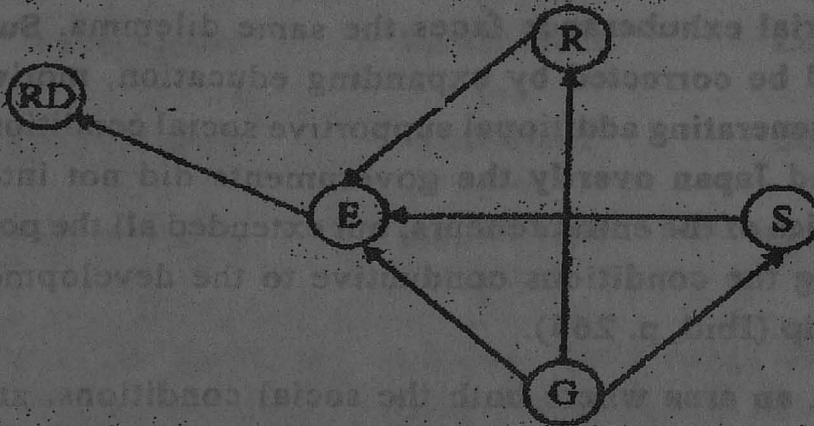
Again, in an area where both the social conditions, and the economic resources tilt in a negative direction, very little scope for the development of entrepreneurship exists. In such an area, the development of entrepreneurship would depend on the bicuspid strategy aiming at both the aspects.

Thus, the various combinations of both the opportunity conditions attach a significant importance to the possibility of entrepreneurship in a area.

In addition to these two bases, a third factor, namely the attitude of the Government, plays a crucial role during this process *spanning* from commitment to achievement. Though the approach of the Government towards entrepreneurship is hardly encouraging, its promotional, protective and corrective functions can hardly be overlooked. The policies and programmes initiated by the

Government are mostly politically motivated. However, such promotional schemes do generate entrepreneurship in the specific pockets. But the growth of entrepreneurship tends to be lopsided and inequitable.

Thus, the equation of regional development through entrepreneurial development is depicted.



R = Resources, S = Social conditions, G = Government.

E = Entrepreneurship, RD = Regional Development.

Before arriving at the particular strategy for the promotion of entrepreneurship, it would be appropriate to concentrate on the salient features and limitations relating to the phenomenon. This would help justifying the feasibility of the entrepreneurship proposed.

In his study of entrepreneurs in U.P., Sharma concluded that persons coming from non-business background have higher degree of entrepreneurial orientation and commitment than those coming from business families. In view of this finding, it is necessary that actually oriented and committed class of entrepreneurs (who are generally from a non-business background) should be selected to promote real entrepreneurship.

Social conditions, available resources and Government support have concurrent effect on the rise of entrepreneurship. Of the three variables, the first two may not always be positive and the third one is usually a matter of political motivation. Despite several Government measures, development of backward regions has been far from satisfactory. Unwarranted delays, excessive paperwork, bureaucratic procedures, etc. have affected the growth of entrepreneurship. It is necessary to adopt a strategy that would facilitate the promotion of new enterprises which require minimum resources and minimum institutional support. The strategy should also aim at the diversification of the benefits of industrial progress.

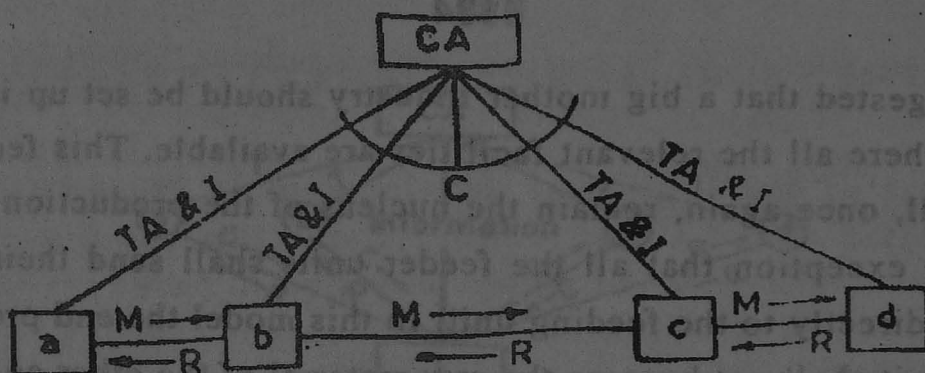
The Strategy : In view of the foregoing analysis of the variables, the environment, and the bottlenecks, it is desirable to ponder over an appropriate strategy of entrepreneurial development and socio-economic growth. Two models of entrepreneurial development have been proposed, viz., the horizontal model and the vertical model.

(a) The Horizontal Model : Before launching a scheme of assistance for the small and cottage industries, a central agency should be set up. This agency will make an intensive study of the existing possibilities and the future potentials. The existing bodies, like the District Industrial Centres (DICs), the IDBI, and the entrepreneurship development institutions do not serve the purpose.

Like the DIC, the DEC (District Entrepreneurial Centres) should be opened. These DEC should have the semi-autonomous character, and they may be attached to Department of Industries. The composition, the financial and the advisory structure of these DEC can be spelt separately.

Under the directives of this agency, it should be finally decided that the financial and the institutional support shall be made available to the entrepreneurs following the product line, for which the feasibility has already been sorted out. It is obvious that the assistance is not to be granted to all the enterprises being set up in a particular area.

The horizontal nature of this model requires that along with the above-mentioned prerequisites, the technological set-up of the production system should carefully be studied, segregating it into the smaller parallel sub-systems catering to the nucleus systems of production. Thus various small units may be established for each of the sub-system of production. Contrary to the traditional cottage industries, these small feeder units would adopt the modern technology identical to the central technology set-up. It is certainly not a hypothetical proposition, and its viability is assured because the feeder units do have to procure one small set of machines enabling them to produce the particular parts only. The end product of one unit shall be used as the raw material for the next unit, till it reaches the final stage of production, ready to be marketed. To ensure quality, strict quality control may be exercised at every stage. Such an approach removes the problems of raw material procurement, competition, and marketing. The central agency would continue providing the package of technical know-how, and other relevant information to these feeder units. It may also extend its coordinating role to ensure the smooth functioning.



CA = Central agency; a, b, c, d = small feeder units;

M=Market, R=Raw material; C=Co-ordination; and

TA and I = Technical Assistance and Information.

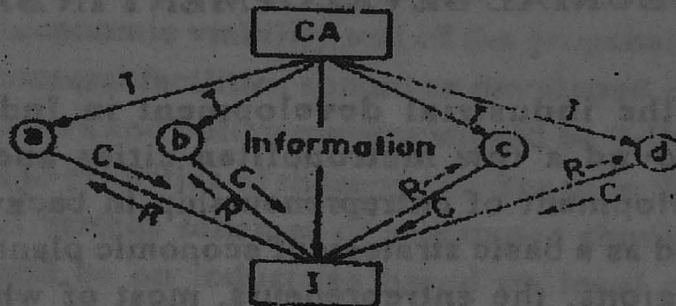
Justification

- (a) More employment generation.
- (b) Distribution of profits on more socialistic lines.
- (c) Good quality of the product because of better technical application and the quality control.
- (d) Less capital intensive.
- (e) Negligible risks of marketing.
- (f) Management is relatively easier.
- (g) Labour disputes and the lockouts, etc. shall be almost non-existent.

(b) *The Vertical Model* : In this model as well, the production is carried out in the smaller units; however, the strategy is different. Whereas, in the horizontal model, the feeder units are placed in a horizontal line, in the vertical model the feeder units work under the protection and guidance of one mother industry. In this model,

it is suggested that a big mother industry should be set up in the locale where all the relevant facilities are available. This feeding unit shall, once again, remain the nucleus of the production line, with the exception that all the feeder units shall send their end product directly to the feeding unit. In this model the end product of one unit shall not become the raw material of the other co-unit, rather it will directly be sent to the main production centre. These smaller units may preferable be established in the nearest vicinity of the mother industry. Thus the nucleus unit will finally assemble the components making the product ready for marketing.

The production process, envisaged in this model, should, once again, be subjected to stric quality control. The process being vertical, the responsibility areas can be directly located. This is an added benefit of this model. The adoption of this model requires that the central agency will have to draft a separate code of entrepreneurial motivation for the prospective entrepreneurs, who will be expected to run the feeding units. Simultaneously, the central agency may organise special workshops for the entrepreneurial force working under the leadership of the feeding industry. Alternatively, the leader industry may also seek guidelines from the central agency regarding the motivation and sustenance of the entrepreneurial group. The Teletronics Ltd., at Bhimtal, district Nainital (U.P.), is established almost on the same lines.



CA=Central Agency; a, b, c and d=small units;

I= Main Industry; T=Training; C= components;

R=Raw Material.

Justification

This model has all the pluses of the model, discussed earlier. In addition to them, it has the following benefits;

- (a) Small units get protection from the big mother industry.
- (b) Raw material for the smaller units is always made available by the big industry.
- (c) Better quality control is possible.
- (d) Marketing problems, and the risks are reduced to minimum.

Regarding the selection of a particular model, the decision must be based on the nature of the product to be manufactured, the ecological, and the entrepreneurial scope, in a particular area. The Government may play a significant role in influencing both these factors. Over and above, it may provide direct assistance to them. In order to achieve the ultimate aim of socialistic and purposeful development, people with a sense of commitment and orientation should be selected. It should also be ensured that the benefits do reach the common masses.

ENTREPRENEURIAL DEVELOPMENT IN BACKWARD AREAS

Most of the industrial development in India has been concentrated round a few metropolitan cities and big towns. Therefore, development of entrepreneurship in backward regions has been adopted as a basic strategy of economic planning in India. In backward regions, the entrepreneurs, most of whom are first generation entrepreneurs, face several problems such as lack of finance, shortage of raw materials, lack of market coverage, lack of technical and managerial skills, improper project planning, shortage of power, lack of testing facilities, etc. entrepreneurship among local people is lacking mainly due to lack of risk taking ability, lack of business experience, ignorance of various facilities and incentives available for setting up industries, lack of aptitude and necessary motivation. Bureaucratic procedures involved in setting up new units and the initial harassment and hardships discourage many prospective entrepreneurs.

Lack of infrastructural facilities is the main hurdle in the growth of entrepreneurship in backward regions. A dynamic organisational infrastructure to coordinate and activate entrepreneurial development is a basic prerequisite in a backward area. Such an organisation can bridge the knowledge gap, lack of expertise, training and aptitude. It can face problems of finance, raw materials, marketing and transportation, etc.

Several steps can be taken to promote entrepreneurship in backward areas. Proper coordination must be ensured between the concerned authorities. They should have adequate technical staff for selecting and guiding genuine investors. The staff of these agencies must be motivated, honest and sincere. An orientation in

their outlook and approach is necessary. Before the loan is released proper techno-economic viability test of the proposal be carried out. Proper infrastructural facilities should be developed in the backward areas. The planners and policy makers should be fully familiar with the problems and priorities of these areas. Snags in the institutional framework and various schemes of assistance should be removed. Emphasis should be on industries based on local resources. The agencies should monitor the progress of assisted units. Their officials should frequently visit the entrepreneurs to ensure that the facilities are being availed of properly.

To conclude an integrated and multidimensional approach is required for the growth of entrepreneurship in backward areas and for identifying opportunities that have growth prospects based on local resources. It is necessary to provide the technology, finance and other assistance which small scale entrepreneurs need very acutely.

Government agencies and financial institutions often provide essential infrastructural facilities like land, power, raw materials and finance at concessional rates to entrepreneurs in backward areas. Technical guidance, training, marketing assistance, subsidies and tax exemptions are also available. But there is often lack of coordination among the different agencies like banks, State financial corporations and the government. For example, the financing agencies insist on a licence or permit before granting finance. But the licensing authorities grant permit only after the vehicle is acquired. Officers of various agencies lack requisite knowledge to guide the entrepreneurs. In some cases the officers harass the entrepreneurs.

QUESTIONS

1. Give a brief account of agricultural entrepreneurship in India.
2. Explain the role of TRYSEM in the development of entrepreneurship.
3. What are the risks faced by rural entrepreneurs? Do you think rural entrepreneurs have low risk-taking ability?
4. Discuss entrepreneurial development in backward regions in India.

Chapter - 10

WOMEN ENTREPRENEURS

Women constitute almost half of the total population in the world. But their representation in gainful employment is comparatively low. According to an I.L.O. report, in 1980 "women are 50 per cent of the world's population, do the two-thirds of the world's work hours, receive ten percent of the world's income and own less than one percent of world property. All because of an accident of birth". In most countries, average earnings of women are lower than those of men. In several developing countries, marriage is the only career for most women. Women have confined their activities to selected professions such as education, nursing, medicine, and office work, very few women enter professions like industry, engineering, trade etc.

For centuries, women have been victim of social prejudices and discrimination. Even today, parents prefer male child to female. Lakh's of foetus destroyed after pregnancy tests reveal it is female. Women are generally presumed to be weak, passive, dependent and people-oriented. On the other hand, men are considered strong, aggressive, independent and things-oriented. Assumptions become reality when society prepares males and females for performance in presumed roles. As a result, men and women enter organisations with different skill sets. Women are taught to depend upon others, to limit their ambitions and to avoid exposure and risk. Such orientations and role prescriptions inhibit development of self-confidence, innovativeness, achievement motivation and risk taking abilities which are essential for an entrepreneurial career.

In Hindu scriptures, women has been described as the embodiment of Shakti (Durga). But in real life she is treated as *abla* (weak and dependent). Women in traditional societies are still confined to the four wall of home, children, household affairs and family rituals. Very few get the opportunity to come out of the four walls and enter economic activities. In a male-dominated society, women are not treated as equal partners.

THE CONCEPT OF WOMEN ENTREPRENEURSHIP

Women entrepreneurs may be defined as the woman or a group of women who initiate, organise and operate a business enterprise. According to Schumpeter an entrepreneur is an innovating individual who introduces something new into the economy. However, such innovators are rarely found in the under developed countries. What is primarily needed in these countries *per se* is not innovators, but imitators or the humbler entrepreneurs capable of exploiting the hitherto existing possibilities on a small scale. The enterprise of these people may be small and unimpressive when judged by standards of the developed countries. But the high propensity to imitate can set in motion the chain reaction which leads to cumulative progress. Thus, in the Indian context, entrepreneur is more an adapter and imitator than a true innovator. He is more the Marshall's organiser of productive factors than Schumpete's creative disturber. Any woman or group of women which innovates, imitates or adapts an economic activity may be called women entrepreneurship.

According to the Government of India, a woman entrepreneur is defined as "an enterprise owned and controlled by a woman and having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated in the enterprise to women". Women entrepreneurs are opposing the

condition of employing more than 50 per cent women workers. They point out that this condition is discriminatory. Enterprises set up by women should be provided with incentives and support on the basis of their ownership and management characteristic and not linked with employment of women.

FUNCTIONS AND ROLE OF WOMEN ENTREPRENEURS

Like a male entrepreneur, a woman entrepreneur must perform five functions:

1. Explore the prospects of starting new enterprises.
2. Undertaking of risks and the handling of economic uncertainties.
3. Introduction of innovations.
4. Coordination, administration and control
5. Routine supervision.

All these functions appear to be some what uneven in character. Moreover, these functions are not always of equal importance. For, instance, risk taking and innovations are paramount for establishing or diversifying an enterprise. Coordination and supervision became increasingly important in improving the efficiency and assuming smooth, balanced operation of the undertaking. In women enterprises, usually the same lady performs all these functions. Most likely, she is also the owner of the enterprise.

Women entrepreneurs can more easily undertake three types of industrial enterprises: (1) operate purely as a sub-contractor on raw materials provided by the customer; (2) manufacture an item to

the long or short term order of another enterprise usually a large scale unit; and (3) manufacture the item for direct sale in the market. Generally, the first two types of enterprises are known as ancillaries. Women entrepreneurs produce both consumer goods and intermediate goods which are used in the production of other articles.

GROWTH OF WOMEN ENTREPRENEURSHIP

In recent years women have made their mark in different walks of life and are competing successfully with men despite the social, psychological and economic barriers. This has been possible due to education, political awakening, urbanisation, legal safeguards, social reforms, etc. Some of the women have distinguished themselves in many uncoventional fields as Prime Ministers, Ambassadors, Governors, space scientists, pilots, vice-chancellors, administrators and entrepreneurs.

In business, the entry of women is a relatively new phenomenon. On account of the break-up of the joint family system and the need for additional income to maintain living standards in the face of inflation, women began to enter the competitive world of business. A woman may start her own business due to several reasons. She may not be able to find a job in the market place or she may not be able to work out of her house. Some women may start their own businesses as they are stagnating near the top of male-owned firms.

In the United States, women entrepreneurs have emerged as the fastest growing group of entrepreneurs. According to the U.S. Internal Revenue Service (IRS), the number of female-owned enterprises increased from 702,000 in 1997 to 2.8 million. These women own textile mills, trucking firms, highway and construction

firms, beauty parlours, drycleaning shops, photographic studios and dozens of other businesses.

In India, women entrepreneurs constitute a negligible proportion of the total entrepreneurs. Attitudinal constraints, social traditions and kinship system inhibit the emergence of women entrepreneurs. "The typical women enterprises are the extending of kitchen activities, i.e., the 3 Ps, viz., pickles, powder (Massala) and pappad, or the traditional cottage industries of basket making, etc." In India women have contributed mainly in household industries due to the less technical know-how required and little competition from men in these industries. With the spread of education and the growing awareness among women, women entrepreneurs have entered into engineering, electronics, energy and many other industries. Although the number of such units is small, women are putting up units to manufacture solar cookers, T.V. capacitors, electronic ancillaries and small foundaries. Various government agencies and voluntary bodies, like Mahila mandals, have accelerated the growth of women entrepreneurs in the country. Over the year, women have become more achievement-oriented, career-minded and economically independent. They want to widen their sphere of work and enjoy achievement.

In a recent survey of business women in Delhi and surrounding areas it was estimated that 40 per cent of these entrepreneurs have ventured into non-traditional areas such as electronics, engineering, consultancy, etc. The State of Kerala where the literacy among women is highest in India provides a good example of women entrepreneurship. As on March 31, 1984 there were 82 women's industrial units in Kerala. Of these 592 were proprietary concerns, 43 partnership concerns, 42 charitable institutions, 3 joint stock

companies and 102 cooperative societies. These industries were classified as food production and processing (77), ready made garments (281), book binding (106), matches (27), candlemaking (33) chemical items (18) handicrafts (28) electronic radio assembling (25), rubber items (25), chemical laboratories (18) engineering works (4), handloom textiles (32) and miscellaneous (108). Most of the women entrepreneurs in Kerala have proper education and access to capital. Most of them have high degree of motivation and entered into business as a result of the encouragement received from husbands, relatives and Mahila Samajams. They are skilled in traditional and self-acquired crafts for which they mostly use local raw materials. In the absence of requisite technical knowledge they hire technicians and managers. Most of them have contracts at the higher social and government levels. They seek the rewards for good returns in investments and find the work satisfying and challenging. Their desire to work at the place of residence, difficulty of getting job in public and private sectors, and the desire for social recognition are the motivating factors for self-employment. Most of these entrepreneurs have plans for expansion and diversification of their enterprises.

The emergence of women's industrial units in Kerala was facilitated by the following factors: (1) Financial assistance from the State Government. The State Government met (a) establishment charges of paid managers and technical experts of these units for 5 years, (b) 50 per cent of the cost of machinery, (c) rent of the building subject to a maximum of Rs. 500 per month, and (d) stipend to trainees. (2) *Marketing assistance* : The State Government subsidised the expenses incurred by units in marketing their products. (3) *Training centres* : The State Government set up

vocational training centres for unemployed women to acquire necessary skills and technical know-how.

Now several Government organisations are providing training facilities for women entrepreneurs. National Institute of Entrepreneurship and Small Business Development (NIESBUD), New Delhi, is an apex body for training and research in entrepreneurship. Women and rural entrepreneurs are also assisted under various schemes like National Rural Employment Programme (NREP), the Integrated Rural Development programme (IRDP), Self Employment Scheme for Educated Unemployed Youth (SEEUY), Rural Landless Employment Guarantee Programme (RLEGP), Self Employment Programme for Urban Poor (SEPUP), etc.

RURAL WOMEN ENTREPRENEURSHIP

The phenomenon of women entrepreneurship is largely confined to metropolitan cities and big towns in India. Most of the women entrepreneurs operate small scale units. However, women entrepreneurs are found in rural areas also. A rural woman entrepreneur is a woman or group of woman who undertake to organise and run an enterprise in a rural area. The supply of rural women entrepreneur may be classified into the following categories.

1. Women who take to entrepreneurship because of dire economic needs.
2. Women who take to entrepreneurship because they had the family back ground-tradition in some skill or trade, hence they would like to have extra money for themselves and their families.

3. Women who take it up because they have certain personality characteristics such as need for achievement, need for power and influence, etc.
4. Women who take it up as a leisure time activity, and
5. On official advice and guidance.

Women entrepreneurs face special problems and constraints. These are illiteracy, lack of vital information, fear to take risks, lack of experience and training, feeling of insecurity, etc. In addition, there are structural constraints in the form of inequality, limited purchasing power, condemnation by local elite, etc. They have also to face competition from the urban entrepreneurs who make more attractive and cheaper products due to modern technology and commercial production.

In order to assist and develop rural women entrepreneurship, women at grassroot level should be involved through the women's organisations. Such organisations can be instrumental in identifying women for income generating activities. The Small Industries Service Institute and voluntary organisations should organise special programmes for prospective women entrepreneurs in villages. Under the Integrated Rural Development Programme (IRDP), special sub-schemes can be undertaken for development of women entrepreneurs in rural areas.

There exists a congenial climate for women entrepreneurship in the countries which stand at the threshold of industrialisation. These countries are placing great stress on the development of small scale and cottage industries. In these countries capital is scarce and investors are cautious, markets are very limited because of the low

purchasing power and the entrepreneurs are inexperienced. These are the sound reasons for the promotion of self-employment.

In order to understand the background which produces the best women entrepreneurs and the type of action accentuating their emergencies, two hypotheses may be examined. First, women entrepreneurs are produced by the environment and the direct action of the part of government and/or other agency. Secondly, women entrepreneurs can best be developed out of the women folk, with an aptitude for an experience in entrepreneurship. There is ample evidence to show that the government efforts to promote entrepreneurship either by training or by granting loans to women without aptitude have failed miserably. While examining the factors that have been active in moulding entrepreneurship, it is, therefore, necessary to look into the two aspects of the issue viz., (i) personal profile of women entrepreneurs and their socio-economic background and (ii) the extent of contact at the higher social and government levels through her husband and other close relatives, extent of technical guidance and financial support received from government and other agencies.

Women adopt entrepreneurial carrier due to pull and push factors. In the former case, they take it as a challenge and an adventure with an urge to do something new and to take up an independent occupation. In the latter category, women establish business enterprises to overcome financial problems of self and family.

PROBLEMS FACED BY WOMEN ENTREPRENEURS

Apart from the tacit assumption that women are frail and indecisive, women entrepreneurs encounter many problems in their efforts to develop the enterprises they have established. The main

problems faced by the women entrepreneurs may be analysed as follow.

1. Shortage of Finance : Women and small entrepreneurs always suffer from inadequate financial resources and working capital. They are lacking access to external funds due to absence of tangible security and credit in the market. Women do not generally have property to their names. Owing to the lack of confidence in women's ability, male members in the family do not like to risk their capital in ventures run by women. The complicated procedure of bank loans, the inordinate delay in obtaining the loans and the running about involved deter many women from venturing. Women entrepreneurs also face the problem of obtaining working capital for financing day-to-day operations of their enterprises. Banks discourage women borrowers believing that they will leave their business and become housewives again. Women entrepreneurs rely often on personal savings and loans from family friends. Most of the women enterprises fail due to lack of financing.

2. Inefficient Arrangements for Marketing and Sale : For marketing their products, women entrepreneurs are often at the mercy of the middlemen who pocket large chunk of profit. Although the middlemen exploit the women entrepreneurs, the elimination of middlemen is difficult because it involves a lot of running about. Further, women entrepreneurs find it difficult to capture the market and make their products popular. This problem is all the more serious in the case of food production and processing ventures.

3. Shortage of Raw Materials : Women entrepreneurs find it difficult to procure raw materials and other necessary inputs. The failure of many women cooperatives in 1971 such as those engaged in basket-making was mainly due to the inadequate availability of

forest-based raw materials. The prices of many raw materials are quite high.

4. *Stiff Competition* : Many of the women enterprises have imperfect organisational setup. They have to face severe competition from organised industries and male entrepreneurs. For example, women cooperatives engaged in hand pounding of rice in Kerala confronted heavy competition from mechanised rice mills which resulted in the liquidation of many units in the traditional sector.

5. *High Cost of Production* : Another problem which undermines the efficiency and restricts the development of women enterprises is the high cost of production. Government assistance in the form of grants and subsidies to some extent enables them to tide over this difficulty. However, to ensure their ultimate survival, it is necessary to increase efficiency, expand productive capacity and thereby reduce the cost.

6. *Low Mobility* : One of the biggest handicaps for women entrepreneurs is mobility or travelling from place to place. Women on their own find it difficult to get accommodation in smaller towns. A single woman asking for a room is still looked upon with suspicion. Some of the women entrepreneurs complain that government clerks and private dealers harass them as women are believed to be less able to go through complicated court proceedings.

7. *Family Responsibilities* : In India, it is mainly a women's duty to look after the children and other members of the family. Her involvement in family leaves little energy and time for business. Married women entrepreneurs have to make a fine balance between business and home. Their success in this regard also depends upon supporting husband and family. Without the support and approval

of husband, the female entrepreneurs cannot succeed. There arises a role conflict in many women entrepreneurs. Such conflict prevents them from taking prompt decisions in business. Despite modernisation, tradition and family responsibilities slow down the movement of women. Occupational backgrounds of families and education level of husbands have a direct impact on the development of women entrepreneurship. The development of Kindergartens, day nurseries and creches and family planning have to some extent helped women entrepreneurs to carry on business without affecting the social prestige of their husbands.

8. Social Attitudes : The biggest problem of a woman entrepreneur is the social attitude and the constraints in which she has to live and work. Despite constitutional equality, there is discrimination against women. In a tradition-bound society, women suffer from male reservations about a woman's role and capacity. In rural areas, women face resistance not only from males but also from elderly females who have accepted inequality. The overbearing presence of elders restrains young girls from venturing out. Rural women have the potential but they are not properly trained. It is believed that skills imparted to a girls is lost when she gets married. Therefore, girls continue to be helpers in agriculture and handicrafts and cannot become entrepreneurs. In a male-dominated society, women do not get equal treatment and male ego puts barriers in their progress.

9. Low Ability to Bear Risk : Women have comparatively a low ability to bear economic and other risks because they have led a protected life. Sometimes, they face discrimination in the selection for entrepreneurial development training. Some of them lack entrepreneurial initiative or specialised training. Inferiority

complex, unplanned growth, lack of infrastructure, late start, etc. are other problems of women entrepreneurs in India.

10. Lack of Education : In India literacy among women is very low. Due to lack of education, majority of women are unaware of technological developments, marketing knowledge, etc. Lack of information and experience creates further problems in the setting up and running of business enterprises.

11. Low Need for achievement : Need for achievement, independence and autonomy are the prerequisites for success in entrepreneurship. But women are proud to bask in the glory of their parents, husbands, sons, etc. Their preconceived notions about their role in life inhibit achievement and independence. In the absence of the required urge to achieve, few women succeed as entrepreneurs.

In addition to the above problems, inadequate infrastructure, shortage of power and technical know-how and other economic and social constraints have retarded the growth of women entrepreneurship in India.

REMEDIES TO SOLVE THE PROBLEMS OF WOMEN ENTREPRENEURS

The following measure may be adopted to solve the problems faced by women entrepreneurs in India :

1. Finance Cells : In various public financial institutions and banks special cells may be opened for providing easy finance to women entrepreneurs. These cells should be manned by women officers and clerks. Efforts should be made to provide finance at the local level. Finance to women entrepreneurs may be provided at concessional rates of interest and on easy repayment basis.

2. Marketing Cooperatives : Encouragement and assistance should be provided to women entrepreneurs for setting up cooperatives. These cooperatives will pool the inputs of women enterprises and sell them on remunerative prices. Such cooperatives will help to eliminate the middlemen. Central and State Governments should give priority to women entrepreneurs while purchasing for their requirement.

3. Supply of Raw Materials : Scarce and imported raw materials may be made available to women entrepreneurs on priority basis. A subsidy may also be given to make the products manufactured by women entrepreneurs cost competitive.

4. Education and Awareness : It is necessary to change negative social attitudes towards women. Elders, particularly, mothers and mothers-in-law, need to be made aware of the potential of girls and their due role in society. Unless the social attitudes are made positive not much progress can be made by women entrepreneurs.

5. Training Facilities : Training and skills are essential for the development of entrepreneurship. Training schemes should be so designed that women can take full advantage. Family members do not like women to go away to far off places for training. Therefore, mobile training centres should be arranged. Similarly, part time training facilities, especially during afternoons will attract more women to acquire skills. Additional facilities like stipend, good hygienic creches, transport facilities, etc. should be offered to attract more and more women to training centres.

Women the potential and the will to establish and manage enterprises of their own. What they need is encouragement and support. Government and public enterprises should offer ancillary

units to women entrepreneurs on priority basis. With the assistance of family members and the Government women can join the main stream of national economy and thereby, contribute to the country's economic progress.

SELECTION OF INDUSTRY BY WOMEN ENTREPRENEURS

Proper selection of industry to be set up by a women entrepreneur depends upon the following factors :

1. Family background
2. Education
3. Attitude
4. Training, etc.

All other infrastructural and environment factors are common for all entrepreneurs. Women with technical education can start self-employment units with the help of banks and District Industries Centres. Women with no technical education may start enterprises after getting training for women. Banks and other financial institutions now organise entrepreneurship development programmes. State Bank of India has conducted more than 150 such programmes to develop entrepreneurial skills and to persuade participants to start independent ventures. Banks also make arrangements for imparting vocational training. State Bank of India has arranged training for blind women in handloom weaving, Kalain ka art, ceramics production, etc.

Women entrepreneurs should be provided the following types of assistance :

1. Promotional help : Preparation of project report, registration and licensing help, etc.

2. Training : Achievement motivation training and training in the particular industry should be provided.

3. Selection of machinery and technology : Suitable assistance in the choice of appropriate machinery and equipment should be provided. A 'machine and process bank' may be created to provide data about machinery and technology transfer.

4. Finance : Necessary credit for fixed and working capital should be given.

5. Marketing assistance : Sufficient data and marketing intelligence should be made available to women entrepreneurs.

A two-tier approach should be used to provide technical and managerial training before the promotion of the enterprise and in the course of operating the venture.

The type of industry to be set up by a woman entrepreneur depends very much on the local conditions. The factors such as availability of raw materials, the supply of local labour, local demand, power, etc., are vital for selecting the industry. State Bank of India sponsored and financed a study. After conducting the study, small Industry Service Institute, Indore, has recommended the following types of industries for women entrepreneurs:

1. Manufacturing of agarbati, papad, pickle, apparels, stationery, packaging materials, handicrafts and bed sheets.
2. Running of urban dairies, dry cleaning, creches, restaurants, working women's hostel, photographic studio, xeroxing firm, pathological clinics for biochemistry students, travel agencies, advertising agencies, etc.

3. Service centres for plumbing, electric repairs, televisions repairs, radio and watch repairs, office maintenance on contract basis, catering, batik painting, embroidery, tutorial classes, stenography classes.
4. Retail shops for textiles, ready made garments, grocery, drug stores, snack bars, sweetmeat stalls, soft drink, florist shops.

DEVELOPMENT ORGANISATIONS

In India the Federation of Indian Chambers of Commerce and Industry (FICCI), FICCI Ladies Organisation (FLO), National Alliance of Young Entrepreneurs (NAYE) and other voluntary agencies assist women entrepreneurs. Under the Social Education Scheme of Community Development Programme, Mahila Samagams (Women's groups) were organised and Women's Industrial Cooperatives were set up in 1958. The Sixth Five Year Plan proposed for promoting female employment in women preferred industries.

The nationalised banks and State Financial Corporations advance loans to women entrepreneurs on preferential basis. State Industrial Development Corporations and District Industries Centres provide loans, subsidies, and grants to small scale and women entrepreneurs. State level agencies assist women entrepreneurs in preparing project reports, buying machinery and building, training and hiring staff.

Women possess a futuristic outlook and the capacity to nurture new enterprises. What is needed is proper training, helpful attitudes and facilities and assistance. In this connection, there is need for reorientation of curriculum design for women's education. At present emphasis in women polytechnics is on traditional skills like embroidery, interior decoration, tailoring, knitting, etc. In addition

to these, entrepreneurial skills in starting and running business units should be imparted to girls. Many institutions are now imparting training under various schemes. But social attitudes keep young women away from these institutions. Women are not allowed to go away from home or to neglect the family. Mobile training centres, part time training facilities during afternoons, transport facilities, stipend, etc. can overcome this problem.

In rural areas, women are already helping men in agriculture and agro-based industries. With little training they can set up industries independently. Women can particularly enter food preservation, bakery, dairy, poultry, forest based weaving and handloom areas of business. In urban areas women can be assisted to set up ancillary units, maintenance and repair units in mechanical and electrical industries.

To conclude, the success of women entrepreneurs differs from State to State. In Kerala and Maharashtra women entrepreneurs have been most successful. Entrepreneurial movement among women started late and is still in its infancy. The movement requires pre and post-followup support to utilise women power in the country's economic development. A coordinated role of Government and voluntary agencies with an integrated approach will help to develop women entrepreneurship. Re-orientation of educational system for women, curriculum change, career guidance, reservations, scholarships, and timely assistance are required. Satisfactory progress can be made only by honest, sincere and dedicated efforts by all. Only the joint efforts of both men and women entrepreneurs can change an under-developed India into a fully developed country.

QUESTIONS

1. What do you understand by women entrepreneurship?
How and why do women become entrepreneurs?
2. Explain the economic and social background of women entrepreneurs.
3. Describe the growth of women entrepreneurs in India.
4. What problems are faced by women entrepreneurs and how do they cope with these problems?
5. Write short notes on:
 - (a) Functions and role of women entrepreneurs
 - (b) Rural women entrepreneurs
 - (c) Role of women entrepreneurs' organisations
 - (d) Need for developing women entrepreneurs
 - (e) Selection of industry by a women entrepreneur

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