LECTURE NOTES

Module-4

Prepared & Designed by

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SYLLABUS (BPUT)

7th Semester (All Branches)

PCP7H013: ENTREPRENEURESHIP DEVELOPMENT (3-0-0)

MODULE - I (10 LECTURES)

Entrepreneurship: Concept of entrepreneurship and intrapreneurship, Types of Entrepreneur, Nature and Importance, Entrepreneurial Traits and Skills, Entrepreneurial Motivation and Achievement, Entrepreneurial Personality.

MODULE – II (10 LECTURES)

Entrepreneurial Environment, Identification of Opportunities, Converting Business Opportunities into reality. Start-ups and business incubation, Setting up a Small Enterprise. Issues relating to location, Environmental Problems and Environmental pollution Act, Industrial Policies and Regulations.

MODULE – III (10 LECTURES)

Need to know about Accounting, Working capital Management, Marketing Management, Human Resources Management, and Labour Laws. Organizational support services - Central and State Government, Incentives and Subsidies.

MODULE – IV (10 LECTURES)

Sickness of Small-Scale Industries, Causes and symptoms of sickness, cures of sickness, Role of Banks and Governments in reviving industries.

Reference BOOK

1. Entrepreneurship Development and Management, Vasant Desai, HPH
2.Entrepreneurship Management, Bholanath Dutta, Excel Books
3 Entrepreneurial Development, Sangeeta Sharma, PHI
4.Entrepreneurship, Rajeev Roy, Oxford University Press

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4.5 SSI exemption skill as per budget 2003-2004
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5. Small Scale Industry

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5.2 Definition of small scale unit

5.3 Characteristics or features of small scale industry or (MSME)

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MODULE - I (10 LECTURES)

Entrepreneurship: Concept of entrepreneurship and intrapreneurship, Types of Entrepreneur, Nature and Importance, Entrepreneurial Traits and Skills, Entrepreneurial Motivation and Achievement, Entrepreneurial Personality.

SMALL SCALE INDUSTRIAL UNDERTAKINGS

AIMS AND OBJECTIVES

- After going through this unit you will be able to:-
- Understand meaning, definition and characteristics of small scale industry.
- Understand the procedure to start an SSI
- Understand the concept of incentives and subsides.
- Describe the problems in SSI
- Understand the causes and consequences of industrial sickness
- Describe corrective measures of sickness in industries.

5.1 INTRODUCTION TO SSI

Our first Prime Minister Pt Jawaharlal Nehru said “Sky is the limit for small industry”. India has to its credit of operating the largest and the oldest programme for the development of small scale industry. Even a child knows that the master brain behind the revival of village industries was the father of the Nation, Mahatma Gandhi. He equated Khadi to the 'Sun' of the village solar system and other industries as planets which support the Khadi programme. He said that true swadeshi consists in encouraging and reviving home industries and that alone can help millions. Gandhiji was not against mechanisation. He said “Mechanisation is good when hands are too few for the work intended to be accomplished, it is an evil when there are more hands than required for the work as in case of India." He was of the opinion that if the government could provide full employment to our people without the help of Khadi and Village industries, he was prepared to wind up his constructive programme of revival of village industries. After independence the government has been giving due emphasis on the development of small scale industry. The Directive Principles of State Policy in the Constitution and Industrial Policies of various Five Year Plans are in tune with the ideas propogated by Mahatma Gandhi. Even the year 1995-96 has been declared as SSI YEAR by the Indian Government Dr. Sh'ankar Dayal Sharma, our Ex President, remarked before giving away the National Awards to outstanding small scale entrepreneurs for the year 1993 "Small scale sector is an important component of our national industrial base and the driving force of our developmental efforts." It is a vital link in the industrialisatiotv-process which takes modern technology to the people and serves as a pre- requisite for balanced economic growth.

5.2 DEFINITION OF SMALL SCALE UNIT

The definition of small scale unit can be categorised in different ways depending on a country's pattern and stage of development, policy aims and administrative set up.

There can be two basis for defining small business and these are:

I. Scale of Business. The size or scale of business can be measured in various ways like:

(i) Investment on plant and machinery.

(ii) Employment generation.

(iii) Investment and Employment,

(iv) Volume and/or value of production,

(v) Volume and/or value of sales.

II. Qualitative Aspects. These can be :-

(i) Ownership of small business is in the hands of an individual or a few individuals.

(ii) Management and Control of small scale firm is with the owner or owners.

(iii) Technology adopted in small scale unit is normally labour intensive.

(iv) Small scale business is normally carried on in a limited or local area.

In 1916 Indian Industrial Commission defined cottage industries as "Industries carried on in homes of workers which we have designated as cottage industries. In these, operations is small and there is but little organization so that they are, as a rule, capable of supplying only local needs."

Before Second World War a small concern was defined as a unit having capital invested upto Rs. 30,000 and those concerns having capital in excess of that amount were classified as large scale units.

The definition of small scale enterprise has undergone changes over years with the ceiling raised to take into account the rising cost of machinery as well as falling value of rupee.

Definitions of Micro, Small & Medium Enterprises [MSME]

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into two classes:

1. Manufacturing Enterprises. These enterprises are engaged in the manufacture or

production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951). The Manufacturing Enterprises are defined in terms of investment in plant & machinery.

2. Service Enterprises. The enterprises engaged in providing or rendering of services and defined in terms of investment in equipment.

The limit for investment in plant and machinery/equipment for manufacturing's service enterprises, as notified, vide S.O. 1642(E) dtd. 29-09-2006 are as under:

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
(Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Tiny Industries. Very small enterprises with an investment of less than Rs. 25 lakh included in the category of Tiny Industries. Capital investments for this purpose means investment in plant and machinery. The locational restrictions for the setting up of Tiny Units have been removed by Small Industries Policy of 1992. The number of persons employed in these units must be less than 50. These units are normally operated under sole proprietorship form of ownership. These units are managed by family members and not professionals which result in lower profit generation.

Ancillary Units. Industrial units having an investment in plant and machinery, whether hold on ownership or by lease or by hire purchase does not exceed Rs. 1 crore and engaged or is proposed to be engaged in the manufacture or production of parts, components, sub assemblies, toolings and intermediaries, or the rendering of service and supply or render at least 50 percent its production of services as the cases may be to one or more other industrial undertakings.

Cottage Industries. These are also called household industries and are characterised by

following features. They are organised by individual's private resources and with the help of members of the household (including family labour) and are pursued as full time or part time occupation. The capital investment is small and the components used are simple. These industrial units normally use local resources and local skills. The output produced in each industrial unit is generally sold in the local market.

5.3 CHARACTERISTICS OR FEATURES OF SMALL SCALE INDUSTRY OR (MSME)

1. Ownership. Ownership of small scale unit is with one individual in sole Proprietorship or it can be with a few individuals in Partnership.
2. Management and Control. A small scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is actively involved in all the decisions concerning business.
3. Gestation Period. Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.
4. Area of Operation. The area of operation of small scale unit is generally localized catering to the local or regional demand. The overall resources at the disposal of a small scale units are limited and as a result of this, it is forced to confine its activities to the local level.
5. Technology. Small scale enterprises are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore these units are more suited for economies where capital is scarce and there is abundant supply of labour.
6. Resources. Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.
7. Dispersal of Units. Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.
8. Flexibility. Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio- economic conditions. They

are more flexible to adopt changes like new method of production, introduction of new products etc.

5.4 Objectives of Small Scale Industry or (MSME)

The small scale sector can stimulate economic activity and is entrusted with the responsibility of realising the following objectives :-

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

5.5 SMALL BUSINESS AS A SEEDBED OF ENTREPRENEURSHIP

Seedbed refers to the preparing of soil for the sowing of seeds so that we may have good crop. Small business is regarded as a seedbed for entrepreneurship as it provides conducive conditions for the emergence and growth of entrepreneurs. Small scale units employ available technology and can be started with less investment. They are going to use local resources and cater mainly to local demand. These units normally revolve round one individual who is called upon to perform various roles. He is the owner, manager and risk bearer and hence can be called an entrepreneur. The emergence, growth and success of entrepreneurs is linked with the growth of small business. The government of India too has given small scale industry an important place in the framework of economic planning for economic and ideological reasons. Thus setting up of more small scale units will create more opportunities for entrepreneurial development and more and more educated unemployed will come forward for setting up their own enterprises. It will usher in an era where in enterprising persons will assume entrepreneurial career in future.

Small enterprises are called seedbed of entrepreneurship due to the following reasons.

1. Small scale enterprises can be started with lesser investment, which can be contributed by the promoter or arranged from friends and relatives.
2. Small scale units carry on business on a small scale and as such the element of risk too is less.
3. Small scale units are generally based on local resources and as such there is no problem regarding their availability.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. Small scale units generally cater to local demand and necessary modifications can be made in the products keeping in mind the changing demand of people.
7. Small scale units provide ample opportunities for creativity and experimentation.
8. Small scale units have shorter gestation period and hence waiting period for getting return on investment is less.
9. These units are relatively more environmental friendly.
10. Small scale units help in building achievement motivation amongst entrepreneurs.
11. Small scale units are viewed favourably by the government and society because these help in equitable distribution of income & wealth.

Keeping in mind the above potentials of small scale industry as a developer of entrepreneurial talent, the government of India has facilitated this sector by providing it with various concessions and incentives.

5.6 IMPORTANCE OF SMALL SCALE INDUSTRY OR (MSME)

Small scale industries play a very important role in the economic development of our country. The socio-economic development of India depends upon the development of small scale industries. This sector is contributing a lot towards generation of employment, increasing overall production and exports. Highlighting the importance of small scale business even Industrial Policy Resolution 1956 states.

"They provide immediate large scale employment : they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of

resources of capital and skill which might otherwise remain unutilised."

The second Five Year Plan while recognizing the importance of small scale sector states the following five points.

1. Generation of employment opportunities.
2. An equitable distribution of national income.
3. Mobilization of Capital.
4. Mobilization of entrepreneurial skills.
5. Regional dispersal of industries.

It is evident from the above points that small scale enterprises play an important role in employment generation, resource mobilization and utilisation, income generation and in helping to promote change in a gradual and phase manner. India occupies a distinct position amongst developing countries specifically in the area of development of small scale industries. India has a vast reservoir of scientific and technical manpower and occupies third position in the world as far as technical manpower is concerned. It has already emerged as a leading player in the development of software technology.

The importance of MSMEs can be judged from the following points :-

1. Employment Generation. Small scale enterprises employ labour intensive technology and hence generate more employment opportunities. Small scale industries generate opportunities for self employment of technically qualified persons, artisans and professionals. A major problem confronting our country is of increasing pressure of population on land and the need to generate more employment avenues. A given amount of capital invested in a small scale industry provides more employment than the same amount of capital invested in a large scale industry. In a country like India confronted with the twin problems of unemployment and scarcity of capital, it is only the small scale industry which can solve these problems. Small scale industries can be located anywhere and hence can provide employment to workers near their homes, more work for the under employed and additional work for the farmers when they are idle.
2. Self Employment. Small scale sector provides numerous opportunities for self

employment and hence is more suited for our country faced with the major problem of unemployment. A self employed entrepreneur is the master of his own show and he, thus gets, opportunity for doing something creative, new and different. He instead of seeking job for himself, provides employment to others. Working for himself creates personal interest and successful accomplishment of the task generates job satisfaction and sense of attainment.

3. Optimum Use of Capital. Small scale enterprises require relatively lesser amount of capital as compared with large scale enterprises. In the context of Indian economy where capital is scarce, small scale sector can act as a stabilising force by providing high output capital ratio as well as high employment capital ratio. Moreover due to shorter gestation period, small scale units provide early returns to the entrepreneurs. Small scale units help in capital formation by mobilising idle and small scattered savings of the people and put these into productive use by investment in small scale units. P.C. Mahalanobis has rightly observed "In view of the meagreness of capital resources there is no possibility in the short run for creating much employment through the factory industries (large scale). Now consider the household or cottage industries. They require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen times greater in comparison with corresponding factory industries."
4. Facilitate Entrepreneurial Development. Small scale sector helps in entrepreneurial development. The units provide self employment to educated unemployed and reduce their overdependence on the government. It also generates feeling of self reliance amongst the people. This sector generates more employment opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities to a large number of entrepreneurs, who are scattered over a wide territory. Small scale industries on the otherhand can mobilise such entrepreneurial skills more effectively and put these into productive use.
5. Use of Local Resources. Small scale enterprises employ local resources like raw material, savings, entrepreneurial skill more effectively. In the absence of these enterprises, these resources are likely to remain unutilised. Thus, on one hand small scale sector ensures better use of the local resources and on the other, generates employment opportunities and income for the local population.

6. Balanced Regional Development. Large scale units are normally concentrated at selected places and this results in generation of employment opportunity, income and development of only these places. Whereas small scale industries utilise local resources and promote decentralised development of industries. It is only through dispersal of industries in rural and backward areas that the objective of balanced regional development can be achieved. Small scale sector by providing employment to people in rural & backward areas help in solving the problems of industrial slums, congestion and pollution in industrial towns. Small scale sector by generating employment and income in backward areas help in raising standard of living of people.
7. Conservation of foreign exchange. Small scale enterprises help in saving precious foreign exchange. Firstly small scale units utilise local resources like raw material and available machinery and they are not dependent on costly imports. These units also produce those products which were earlier being imported. Secondly there has been considerable increase in exports from the small scale sector over years and presently this sector contributes about 35 percent to India's total exports, thus earning precious foreign exchange for the country.
8. Equitable spread of income and wealth. Small scale enterprises help in the development of socialistic pattern of society by ensuring equitable distribution of income and wealth. This sector inculcates the spirit of entrepreneurship amongst people thereby providing them self employment with limited means. Ownership of small scale industries is widespread and offer more employment potential as compared with large scale industries. Large scale industries result in concentration of income and wealth in a few hands and that too at selected places whereas small scale industries ensure equitable spread of income & wealth amongst all and that too at all places. Small scale enterprises thus promote the objective of social justice.
9. Supporting Large Scale Industries. Small scale enterprises can facilitate growth and development of large scale industries by providing various parts, components and accessories to large scale industries. Small scale units serve as ancillaries to large units by playing a complementary role.
10. Contribution towards national economy. Small scale enterprises have made rapid strides over years and can produce wide range of products having mass consumption. More than 5000 different products are being manufactured in the small scale sector.

This sector is helping in realisation of the objective or export promotion and import substitution. Nearly 50 percent of the output of the manufacturing sector in our country is produced by small scale sector. The small scale sector thus play a very important role in the economic development of our country.

5.7 PROBLEMS OF SMALL SCALE INDUSTRY OR (MSME)

Small scale enterprises play a very vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints.

The various problems faced by small scale industries are as under :-

1. Finance. Finance is one of the most important problem confronting small scale industries. Finance is the life blood of an organization and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facility are the major causes of this problem. Firstly, adequate amount of funds are not available and secondly entrepreneurs due to their weak economic base, have lower creditworthiness. Neither they are having their own resources nor are others prepared to lend. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations. After nationalization, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate their working adequate credit on easier terms and conditions must be provided to them.
2. Raw Material. Small scale enterprises normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors are going to adversely affect the functioning of these units. Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high

prices. It will lead to increase in the cost of production thereby making their functioning unviable.

3. Technology. Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernize their plant and machinery. Due to obsolete methods of production they are confronted with the problems of less production of inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.
4. Idle Capacity. There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this underutilization are shortage of raw material, problem associated with funds and even availability of power. Small scale units are not fully equipped to over-come all these problems as is the case with the rivals in the large scale sector.
5. Infrastructure. Infrastructural bottlenecks adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical or unviable.
6. Marketing. These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units, they are placed in a relatively disadvantageous position. In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various governmental agencies like Trade Fair—Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale

sector in selling its products both in the domestic and export markets.

7. Underutilization of Capacity. Most of the small scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments. On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross underutilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

8. Skilled Manpower. A small scale unit located in a remote backward area may not have problem with respect to unskilled workers but it may be exposed to the problem of non availability of skilled workers. Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these persons. Besides non availability, entrepreneurs are confronted with various other problems like absenteeism, high labour turnover, indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

9. Project Planning. Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement. They do not bother to study the demand aspect, marketing problems, sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects is not at all given due weight age. Inexperienced and incompetent entrepreneurs often submit unrealistic feasibility reports and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs do not fully understand project details. Moreover due to limited financial resources they cannot afford to avail services of project consultants. This results in poor project planning and execution. There is both time and cost overrun which adversely affect interests of these small scale enterprises.

10. Managerial. Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves. Thus, he must be fully conversant with all aspects of management. Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur is required to undergo training and counseling for developing his managerial skills. Lack of proper commitment and managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds & consultancy services, lack of creditworthiness, education.

5.8 STEPS TO START AN SSI

1. Decision to be self-employed

   This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.

1. Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):
2. The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of businesses would be the most suitable. This will vary from person to person.
3. Scanning of Business Environment: It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.
4. Training: Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor- made Entrepreneurship Development

Programmes (EDPs) and skill up gradation training programmes for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.

5. Product Selection: The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a few of them, closely examine with the help of opportunity analysis each one of them and zero on the final product or products.
6. Market Survey: It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this.
7. Form of Organization: A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur's business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.
8. Location: The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.
9. Technology: To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one to be identified. This will also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.
10. Machinery and Equipment: Having chosen the technology, the machinery and equipment required for manufacturing, the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.

11. Project Report Preparation: After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the report.
12. Project Appraisal: Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. While preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:
    (a) Economical appraisal
    (6) Financial appraisal
    (c) Technical appraisal
    (d) Management appraisal
    (e) Organizational appraisal
    (f) Operational appraisal
    (g) Market appraisal
13. Finance: Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise.
14. Provisional Registration: It is always worthwhile to get the unit registered with the

government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/ KVIC.

15. Technical Know-How: In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED- institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.
16. Power and Water Connection: The sites where the enterprise will be located, should either have adequate power connections or this should be arranged. Entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise as it can materially affect the installation cost. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.
17. Installation of Machinery: Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.
18. Recruitment of Manpower. Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labour, administrative staff etc. Further, sources of getting desired labour and staff members be indented and recruited. Possibly, the labour force has to be trained either at the entrepreneur's premises or in a training establishment.
19. Procurement of Raw Materials: Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap an assured sources of supply of raw materials for running his own enterprise. Government agencies can assist in case the raw materials are scarce or imported.
20. Production: The unit established should have an organizational setup. To operate

optimally, the organization should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are-exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages:

(i) Trial production

(ii) Commercial production

Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss in the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

21. Marketing: Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity, etc., have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:

(i) Test stage

(ii) Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small Industries Marketing Corporation.

22. Quality Assurance: Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.

23. Permanent Registration: After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.

24. Market Research: Once the product or service is introduced in the market, there is

strong need for continuous market research to assess needs and areas for modification, upgradation and growth. Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.

Table 5.2 Sources of information

S. No.	Area	State Level Agencies	National Level Agencies
1.	Project selection	SISI, DIC, IDC's, IIC's, TCO's,'SFSs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IIC, IFCI,IPB, NRDC, EDI
2.	Registration and licenses	CIF, DDCA, DIC, EB, GMD,SIC, WPCB, IC, LA, STC, TC	CECD, CCIE, ISI, IDC, MIC, NSIC,RC, RT, SC, DGTD
3.	Finance	DIC, Bank, SFC, SIC, IICs, IDCs	CB, CEC, ICICI, IDBI, IFCI, NISC,SBI, DIC
4.	Technical	DDCA, DIC, DJCII TOCs,GMD	CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR
5.	Training	EDPs, SISI, TCDs, DICs	SBI, CB, CIPET, IRL, NISIET, IITs,NISBUT, EDI
6.	Infrastructure facilities	DIC, EB, IDC, LA	

Table 5.3: Application forms

S. No.	Subject	Agencies
(A)	**Planning Stage**	
1.	Provisional registration number	DIC
2.	Application for shed or plot	SIDC
3.	No objection certificate from ideal authorities	LA (Local Authority)
4.	No objection certificate from health department	District health officer
5.	No objection certificate from electricity department	Electricity department
6.	Loan application for term loan	SFC/NB/NSIC
7.	Subsidy registration	DIC
8.	Application for building plan and estimates	Approval of architect contractor
9.	Application for bank account/cash credits/ working capital loan	NB
10.	Application for air and water pollution no objection certificate	State pollution controlauthority
11.	Application for the approval of production programme forcertain restricted items .	DIC, SISI, Central Ministry
12.	Registration of partnership deed	Registrar of firms
13.	Application for ancillary units	Parent companies
14.	Registration of firms	Register of firms

15.	Application for the boilers and plant layout of the unit	Inspector of Boilers
16.	Application for the production of petroleum based product	Ministry of Petroleum
17.	Application for Excise Registration Number	Excise Department
18.	Application for Latex in rubber based products	Rubber Board
19.	No objection certificate from Forest Department for wood based products	State conservation of forests
20.	Applications for essential commodity items as raw materials	DistrictCivil Supply Department
21.	Application for imported raw materials	DIC/Export-Import Boards
22.	Application for imported of machines	DIC/Export-Import , Boards
23.	Application for raw materials quota	DIC/Export-Import Boards
(B)	**During Implementation of Project**	
24.	Application for power connection	Local Electricity Dept.
25.	Application for water	LA
26.	Application for C-Form (Sales Tax)	Sales Tax Department
27.	Application for state Sales Tax Registration	Sales Tax Department
28.	Application for central Sales Tax Registration	Sales Tax Department
29.	Application for exemptions from Sales Tax	DIC/Sales Tax Deptt.
30.	Application for exemption from Octroi Duty	DIC/LA
31.	Application for storing of inflammable raw material	Director of Explosives
(C)	**During Running of Enterprise**	
32.	Application for Permanent Registration Number	DIC/Dirctorate of Industries
33.	Application for subsidy claims	DIC
34.	Application for power subsidy	LA
35.	Application for food preservation ordinance license	Food Controller
36.	Application for registration in case of more than 20 employees without power use or more than 10 employees with power use.	Labour Welfare Board/ Employment Exchange/ P.F. Commissioner
37.	Application for product marketing to the Central Government Department	DIC/DGSD

5.9 INTRODUCTION & MEANING OF INCENTIVES AND SUBSIDIES

Entrepreneurs in India are offered a number of incentives in order to encourage them to set up small industrial units. As already witnessed, availability of incentives can reduce concentration of SSIs in urban cities and help dispersal of industries over India's vast geographical area. Incentives benefit the economy and assist entrepreneurs shift from traditional technology to modern technology. Adoption of modern technology helps in improving the skills, higher productivity, high wages and better standard of living.

(i) Incentives, is a general term which includes concessions, subsidies and bounties. Oxford dictionary defines an incentive as, "a thing that encourages somebody to do

something". A concession can be described as, "a reduction in price for particular categories of people". Subsidy Incentives and subsidies act as a motivational force and push the prospective entrepreneurs to an entrepreneurial line.

(ii) Entrepreneurs are encouraged to take action and decisive decisions.

(iii) It encourages entrepreneurs to set up their ventures in those states where incentives are available. Thus, it results in regional dispersal of industries in rural and backward areas. For example, in the State of Punjab, Bhatinda, Ferozpur, Gurdaspur, Hoshiarpur and Sangrur, have been in the list of Industrially Backward Districts in the country.

(iv) Incentives and subsidies increase the ability of the entrepreneur to face competition.

(v) More and more young people are encouraged to become entrepreneurs and exploit their skills.

It is granted to an industry which is considered to be essential in the national interest. The term 'bounty' implies bonus or financial help given by the government to an industry to help it to compete with other units in country or in a foreign market. It is given in proportion to its output. Bounty gives benefits to a particular industry, while subsidy is given in the interest of the nation.

The objective of incentives is to stimulate and motivate an entrepreneur to set up new ventures so that the people and the nation as a whole benefit from that particular venture.
These incentives and subsidies can give following benefits.

5.10 NEED FOR INCENTIVES

Following reasons justify the need for incentives :

i. To Remove Regional Disparities in Development: It is responsibility of respective state/UT Government to develop village and small industries. By offering better incentives in backward areas, the concentration of industry in cities will reduce resulting in even distribution of industry all over the state. For example, Ludhiana (Punjab) is heavily concentrated for hosiery manufacturing whereas Ferozpur district has been declared as backward with nearly no industry. Similarly, the entire state of Himachal Pradesh, Jammu & Kashmir, Tripura, Manipur and many others have been listed as backward states/ districts in country. Incentives allure the entrepreneurs to overlook the deficiencies of backward areas thus, removing the disparities and utilising

the local resources properly.

ii. To Strengthen and Expand the Entrepreneurial Base: Entrepreneurial development is an index to measure the development of any country. Whether entrepreneurship is taken up out of necessity or as an opportunity, incentives do strengthen them to face and overcome various problems coming up in their way. Many incentives like reservation of products, infrastructural facilities, laboratory and testing services, export-import incentives etc. encourage the entrepreneurs to take up new ventures with much reluctance and many schemes of SIDBI, commercial banks etc. help them to continue with their existing units.

iii. To Provide Competitive Strength, Survival and Growth: Central and State governments have a variety of incentives for the industrialists. Some incentives, like seed money are for establishing the new unit while others, like interest free loans, exemption from income-tax are concerned with survival and growth of industries. Some benefits are available only in beginning years of setting up a unit while few are available over a long period. Reservation Policy, for example, comprises 664 products exclusively reserved for production by SSIs. Non-SSIs can also produce the same products but with an obligation of 50 percent exports of the product. Thus, these incentives encourage new comers in the market and also supports the existing industrialists.

iv. Ensure Employment Opportunities. Establishing a small unit ensures not only self-employment but also generates employment for others and removes the evil of under-employment. Proper availability and usage of incentives and subsidies can make it happen. A prosperous and contended entrepreneur will be a satisfied owner also and would give reasonable wages as well. He will be able to generate a conducive environment and may also move from developed to backward area in order to diversify his unit. As a result, more employment will be generated.

5.11 TYPE OF CENTRAL GOVERNMENT SUBSIDIES AND INCENTIVES

The Government of India (GOI), from time to time, announces various schemes/concessions and support services for the promotion of industries. The aim behind such incentives stimulate prospective entrepreneurs to establish themselves in backward areas and, secondly, to reduce the regional imbalances. Some of the subsidies and incentives are as follows :

Credit Linked Capital Subsidy. The GOI launched a new Credit Linked Capital Subsidy Scheme with effect from October 2000. The subsidy is given to upgrade technology of SSIs in selected products and to strengthen the units in the identified sectors to face the competition. The 45 products/Sub-sectors selected sectors, inter alia, include leather and leather products, including footwear and garments, food processing, information technology, drugs, pharmaceuticals, auto components etc SIDBI implements this scheme and gives a capital subsidy of 15% per cent on loans and advances to SSI units by scheduled commercial banks and NSIC. The subsidy is extended to SFCs as well. The plan has been continued during eleventh plan from 2006-2011.

Capital Investment Subsidy. Capital Investment Subsidy was notified on June 01, 1998 by the Prime Minister for North- Eastern Region. Under the Capital Subsidy Scheme, subsidy at the rate of 15 per cent of the investment in plant and machinery is given subject to a maximum ceiling of Rs. 3 million. The subsidy is payable to (i) industry which is located in the growth centres, (ii) to new industrial units, (iii) to industries undergoing substantial expansion in other identified areas in the North Eastern Region. The subsidy is given through the respective stale governments.

Transport Subsidy. The Transport Subsidy Scheme was introduced in July 1971 to promote industries in hilly, remote and inaccessible areas. The scheme is applicable to the States of Himachal Pradesh, J&K, the North Eastern States, Sikkim, Union Territories of Andaman & Nicobar Islands, Lakshadwcep, Darjeeling district of West Bengal and eight hill districts of Uttar Pradesh (now in Uttranchal State) comprising Almora, Chomoli, Dehradun, Nainital, Pauri Garhwal, Pithoragarh, Tehri Garhwal and Uttar Kashi. Under the scheme, a subsidy ranging from 50 per cent to 90 per cent is admissible on transport costs incurred on the movement of raw-materials and finished goods from designated rail heads/parts upto the location of the industrial units and vice-versa. The subsidy scheme has been extended upto March 31, 2007.

Capital Subsidy for tannery Units. The subsidy is given for modernisation of tannery units in the country. The capital subsidy is given against purchase of eligible machinery upto 30 percent of cost or Rs. 2.8 million whatever is lower. SIDBI is implementing the scheme for SSI and non-SSI units through its direct and indirect finance routes.

Collateral-free and Third Party Guarantee free Loans. The GOI in association with SIDBI set up a Credit Gurantee Fund Trust for small industries during financial year 2000-01. The scheme provides a guarantee cover to the eligible lending institution (e.g. commercial banks) in respect of their collateral free and third party guarantee free loans given to SSIs including IT and software sector. The limit has been raised from Re 1 million to Rs. 2.5 million for borrowing unit.

Power Subsidy. Power subsidy is not uniform in all the states/UTs; their nature, contents, quantum and periodicity vary from state to state.

Incentive for Marketing Development. Ministry of Commerce. Government of India reimburses the expenditure incurred by SSI delegates that visit foreign countries for the purpose of exploring marketing possibilities. The incentive is given at the rate of 50 per cent of expenditure incurred by the delegation. This incentive is extended for admissible items only.

Price Preference to SSI Units. The NSIC extends following incentives to SSI units which get registered under the Single Point Registration Scheme.

- Availability of tender sets free of cost,
- Exemption from payment of Earnest Money Deposit,
- Exemption from payment of Security Deposit,
- Price preference upto 15 per cent over lowest quotation of the large scale units

Availability of Industrial Estate. Industrial estates which provide industrial area, plots and industrial sheds for allotment to SSI entrepreneurs is implemented through State or UT Governments. These IEs provide infrastructural facilities which include subsidy on rent fo'r factory accommodation, allotment of sheds on hire-purchase as well on outright sale. Other incentives like concessional charges for water and power, exemption from sales tax and Octroi duty etc. are also offered. Facilities of developed roads, banks, canteens, watch and ward, communication network may also exist.

State Capital Investment Subsidy.

In order to encourage setting up of Industrial units in their States, State Governments provide

State Capital Investment Subsidy to Priority Sector industries. The facilities are available in Utlar Pradesh. Jammu & Kashmir. Andaman & Nicobar Islands., Sikkim, Karnataka. Meghalaya, Himachal Pradesh, Gujarat, Punjab, Andhra Pradesh, Kerala, Maharashtra, Tripura and Manipur.

Sales Tax concessions

State Governments give concessions in sales tax to new units/sick units on the sale of their finished products at the first point of sale for a period of three to fifteen years. The facilities are available in Uttar Pradesh, Jammu & Kashmir, Sikkim. Daman & Diu. Karnataka, Meghalaya, Himachal Pradesh, Gujarat, Nagaland, Punjab, Rajasthan, Andhra Pradesh, Kerala, Haryana and Tripura.

Exemption from stamp duty and local taxes

State Government exempt stamp duty in respect of land allotted by the Government to the new industrial units. Machinery, equipments, raw materials and packing materials of new units arc exempted from payment of octroi duty and other local taxes. The facilities are available in Jammu & Kashmir, Sikkim, Daman, Karnataka, Meghalaya, Gujarat, Nagaland, Rajasthan, Haryana, Maharashtra and Manipur.

Rebate in electricity charges and water charges

State Governments provide rebate in electricity charges and water charges to the new and existing units in their respective States. The facilities are available in Sikkim, Daman, Karnataka, Himachal Pradesh, Gujarat, Nagaland, Rajasthan, Andhra Pradesh, Kerala and Maharastra.

Interest Sutsidy

State Governments provide interest subsidy to entrepreneurs on terms loans which they get from State Financial Institutions/Scheduled Banks. The facilities are available in Jammu & Kashmir, Andaman & Nicobar Islands, Sikkim, Meghalaya, Himachal Pradesh, Punjab, Rajasthan, Andhra Pradesh and Manipur.

State Transport Subsidy

Some State Governments provide State transport subsidy and notified rates from time to time

to industrial units on transportation of raw materials and finished products. The facilities are available in Jammu & Kashmir, Andaman & Nicobar Islands, Nagaland and Manipur.

Subsidy for technical know-how

Stale Governments provide subsidy on the cost of technical know- how obtained by small scale industries from reputed and well established research and development organizations. For obtaining such technical know - how, prior permission from State Governments has to be obtained. The facilities are available in Jammu & Kashmir, Sikkim, Delhi, Kerala and Manipur.

Marketing Support

The State Government Departments, Semi-Government Organizations, Autonomous Government Organizations, Grant-in-Aid Institutions, Departmental Undertakings, etc. while making purchases of their requirements of store items, give preference to the products manufactured by the local SSI units. The facilities are available in Jammu & Kashmir, Sikkim, Nagaland, Delhi, Kerala, Manipur and Tripura.

Special facilities for export oriented units

State Governments provide special package of incentives and better infrastructural facilities for export oriented units. State Governments reimburse costs incurred by SSI units for shipment of export samples from the nearest port/container depot to the port of destination. The facilities are available in Uttar Pradesh, Karnataka, Himachal Pradesh, Punjab, Rajasthan and Tripura.

Air Freight Subsidy

State Government provide Air Frieght Subsidy to SSI units on their finished goods for any destination. The facilities are available in Uttar Pradesh.

Incentives to Non-Resident Indians (NRIs)

State Governments provide special incentives for setting up new industries by NRIs in their respective States. The facilities are available in Uttar Pradesh, Himachal Pradesh, Punjab and Rajasthan.

Special incentives for Women

SSI units owned and managed by women entrepreneurs having more than 80% women labourers are provided special incentives like 50% subsidy for building and machinery, rent subsidy, managerial grant, stipendary training, etc. The facilities are available in Tripura and Kerala.

Incentive for ISO 9000/ISO 14001 Certificates.

The government introduced this incentive scheme for their technological upgradation/quality improvement and environment management. The scheme provides incentive to these small scale undertaking who have acquired ISO 9000/ISO 14001 certificate.

The scheme envisages reimbursement of charges of acquiring ISO- 9000/ISO-14001 certification to the extent of 75% of the expenditure subject to a maximum of Rs. 75,000/- in each case. The scheme is valid upto 31st March 2007.

National Award for outstanding Entrepreneurship in Micro & Small Enterprises engaged in manufacturing.

1. First National Award Rs. 1,00,000/ -cash prize, a Trophy and a Certificate.
2. Second National Award Rs. 75,000/- cash prize, a Trophy and Certificate.
3. Third National Award Rs. 50,000/- cash prize, a Trophy and a Certificate.
4. Special National Award to oustanding Woman Entrepreneur Rs.1,00,000/- cash prize, a Trophy and a Certificate.
5. Special National Award to outstanding SC/ST Entrepreneur Rs.1.00.000/- cash prize, a Trophy and a Certificate.
6. Special National Award to outstanding Entrepreneur from NER including Sikkim Rs.1,00,000/- cash prize, a trophy and certificate.

National Award for outstanding Entrepreneurship in Micro & Small Enterprises rendering services.

1. First National Award Rs. 1,00,000/- cash prize, a Trophy and a Certificate.
2. Second National Award Rs. 75,000/- cash prize, a Trophy and a Certificate.

National Award for outstanding Entrepreneurship in Medium Enterprises engaged in manufacturing.

1. First National Award Rs. 1,00,000/- cash prize, a Trophy and a Certificate.
2. Second National Award ,Rs. 75,000/- cash prjze, a Trophy and a Certificate.

A Special "Recognition Award to those MSMEs scoring marks above 80 percent and (50 percent in case of North Eastern Regions including Sikkim) will be given with a Cash prize of Rs. 20,000/- each, a Certificate and a Trophy at the State Level Function to be organized by Director, MSME-DI.

The awards will be presented in a public function.

Periodicity & Eligibility

The Awards will be given for every calender year to deserving entrepreneurs managing Micro, Small and Medium Enterprises having permanent registration/have filed Entrepreneur's Memorandum with the authorities notified by respective State Governments/UT Administration in accordance with the provisions contained in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which has since come into force from 2 October 2006. The MSMEs should have been in continuous production/servicing at least during last four years.

5.12 FOREIGN DIRECT INVESTMENT IN SSI SECTOR.

a. To provide access to capital market and to encourage modernisation and technological upgradation, equity participation upto 24 per cent of the total shareholding is allowed in SSIs by other industrial undertakings including foreign collaborators.
b. To encourage and promote the acquisition of technological capability, mechanism for foreign technology agreements have been simplified. No permission is necessary for hiring foreign technicians and hence no application needs to be made to the government for this purpose.
c. Use of foreign brand names/trade marks on goods for sale within the country has been permitted.
d. Procedure has been simplified for investment by NRI and Overseas Corporate Bodies (OCBs), which are predominantly owned by NRIs. OCBs are those companies in which NRIs hold at least 60 per cent of the equity.
e. The RBI accords automatic approval to all proposals from NRIs and OCBs by permitting NRI investment upto 100 per cent equity in high priority industries. The

approval includes full benefits of repatriation of capital invested and income accruing thereon.

f. 100 per cent equity investment in industries reserved for the small scale sector is permitted to NRIs and OCBs, provided the export obligation criteria (i.e. export of 50 per cent of the production) is undertaken by the unit.

Incentives of Exporters

a. The Special Import Licence which was required to be obtained has been abolished from April 01, 2001,
b. Import of second hand capital goods (less than 10 years old) is allowed without obtaining any licence or surrender of SIL.
c. Export Promotion Capital Good Scheme is extended to all sectors and to all capital goods without any threshold limit on payment of 5 per cent of duty,
d. Units set in the Special Economic Zones will be treated as being outside the custom territory.
e. In order to give recognition to the established exporters and large Export Houses to build up marketing infrastructure and expertise required for export promotion, a scheme of Export Houses, Super Star Trading Houses was initiated. Under this scheme, registered exporters are granted the status of Export Houses/Trading Houses/Star Trading/Super Star Trading Houses subject to certain requirements.

Participation in International Fairs/Exhibitions

The capability of SSI products is reflected by the fact that it has share of about 34% in national exports. In case of readymade garments, leather goods, processed foods, engineering items, the position of SSI in terms of value and their share within the SSI sector has been commendable. In some cases like sports goods they account for 100% share to the total exports of the sector.

If small scale industrialists want to exhibit their product in the international exhibitions, the whole expenditure on account of space rent, handling and clearing charges, insurance and shipment charges etc. are met by the-office of Development Commissioner (Small Scale Industries) under one of the plan schemes. The basic objective behind the scheme is to promote exports. The strategy has been found to be successful for exporters from small scale

sector in identifying new foreign buyers markets.

With a view to acquiant SSI exporters of the latest packaging standards, techniques etc for exports, training programmes are organised in various parts of the country in association with Indian Institute of Packaging. Thus, entrepreneurs get educated about the scientific techniques of packaging and get sensitized about the international standards of packaging.
Technical and managerial consultancy services to SSI manufacturers and exporters is provided through a net of field officers of this office.

Purchase and Price Preference Policy for Marketing SSI Products.

The policy of reservation of items for exclusive purchase from SSI sector has been in vogue since late 60's as a measure of marketing support to SSI sector. The Store Purchase Policy of the government prior to 1989 was in the form of categorization of items and was divided in six major groups.

However, with effect from July 28, 1989, the Purchase Policy of the government was reduced to two major groups :

(i) Items of stores were reserved for exclusive purchase from KVIC/Women's Development Corporations/Small Scale units and

(ii) Others not so reserved. The first group comprised of 409 items earlier reserved for exclusive purchase from small-scale sector.

The list of 409 items was reviewed recently and a list of 358 items including 8 handicrafts items reserved for purchase from the Handicraft Sector was revised in the year 1998.

(iii) Prime Minister's Rozgar Yojana (PMRY). PMRY, implemented since 1993, is designed to create and provide sustainable self-employment opportunities to one million educated unemployed youth in the country during the 8th Plan Period. The Scheme has been modified from time to time.

5.13 PROBLEMS OF SMALL SCALE INDUSTREIS

We have discussed so far the distinguished peculiarities of small-scale industries. We have found that the organizational pattern of these industries places them at a distinct disadvantage vis-a- vis the large sector. This disadvantage has given rise to various problems with which

the small-scale industries have to contend. We discuss them below in some detail.

1. **Problem of Raw Material**—A major problem that the small-scale industries have to contend with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials and (iii) a high cost. Earlier, the majority of small-scale units mostly produced items dependent on local raw material. Then, there was no severe problem in obtaining the required raw materials. But, ever since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem with more severity mainly due to difficulty in obtaining this raw material either on account of the foreign exchange crisis or some of other reasons.

   Even the small units that depend on local resources for raw material requirements face the problem of other type. An example of this type is handloom industry that depends for its requirement of cotton on local traders. These traders often supply their cotton to the weavers on the conditions that they would sell their ready clothes to these traders only. Then, what happens that the traders sell cotton to them at a fairly high prices and, on the contrary, purchase the ready clothes at a very low prices. This becomes a clearest example of how the poor weavers are subjected to double exploitation at the hands of traders.

   Keeping in view the raw material problem of small-scale industries, the Government makes provisions for making raw material available to small units. Nonetheless, small units with no special staff to liaise with the official agencies, these small units are left with inadequate supplies of raw material. As a result, they have to resort to open market purchases at very high prices. This, in turn, increases their cost of production, and, thus, puts them in an adverse position vis-a-vis their better and larger rivals.

2. **Problem of Finance**—An important problem faced by small-scale industries in the country is that of finance. The problem of finance in small-sector is mainly due to two reasons, firstly, it is partly due to scarcity of capital in the country as a whole and Secondly, it is partly due to weak creditworthiness of small units in the country. Due

to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and are, thus, exploitative in character. It is a happy augury that ever since the nationalisation of banks in 1969, the credit situation has improved still further. The positive change in attitude of banks would be clear from the fact that whereas the amount of credit outstanding (of public sector banks) to small-scale industries stood at only Rs.251 crores in June 1969, it rose to a staggering figure of Rs.15,105 crores in March 1990.

From the above figures, it appears that the availability of institutional credit to small scale industries is certainly increasing. Nevertheless, the fact remains that the criterion of 'credit worthiness' still weights heavily with the nationalised commercial banks. This would be clear from this fact that of the units assisted by commercial banks upto June 1976, about 69 per cent of the total credit was availed of by 11 per cent of the (bigger) units in the small-scale industries sector, which accounted for 55 per cent of the total production. This underlines the need to change the outlook of the banks. For this, it is necessary to further liberalise the rules and practices of banking in the country.

3. **Problem of Marketing**—One of the main problems faced by the small-scale units is in the field of marketing. These small units often do not possess any marketing organisation. In consequence, their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from comparative disadvantages vis-a-vis large-scale units.

In order to save small units from this competitive disadvantage, the Government of India has reserved certain items for the small-scale sector. The list of reserved items has continuously expanded over the period and at present stands at 824 items. Besides, the Trade Fair Authority of India and the State Trading Corporation (STC) help the small-scale industries in organising their sales. The National Small Industries Corporation set up in 1955 is also helping the small units in obtaining the government orders and locating export markets

Ancillary units face the problems of their own types like delayed payment by parent units; inadequacy of technological support extended by parent units, non-adherence to quality and delivery schedules, thus, disturbing the programmes of the parent unit and absence of a well-defined pricing system and regulatory laws.

4. **Problem of Under-Utilization of Capacity**—There are studies that clearly bring out the gross under-utilization of installed capacities in small-scale industries. According to Arun Ghosh, on the basis of All India Census of Small-Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 40 to 50 percent of capacity was not utilized in small-scale units.

The very integral to the problems of under-utilization of capacity is power problem faced by small-scale industries. In short, there are two aspects to the problem: One, power supply is not always available to the small units on the mere asking, and whenever it is available, it is rationed out, limited to a few hours in a day. Second, unlike large industries, the small-scale industries cannot afford to go in for alternatives; like installing own thermal units, because these involve heavy costs. Since small units are weak in economic front, they have to manage as best as it can within their available meagre means.

5. **Other Problems**—In addition to the problems enumerated above, the small-scale industries have been constrained by a number of other problems also. According to the Seventh Five Year Plan, these include technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power etc. and deficient managerial and technical skills. There has been lack of effective co-ordination among the various support organisations set up over the period for the promotion and development of these, industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into is economic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted is a skewed cost structure placing this sector

at a disadvantage vis-à-vis the large scale industries both in the domestic and export markets.

5.14 CAUSES AND CONSEQUENCES OF INDUSTRIAL SICKNESS CAUSES

So far as the causes of industrial sickness are concerned, it cannot be attributed to a single factor alone. In fact, it is an ultimate result of the cumulative effect of many factors/ causes working simultaneously which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

1. External or Exogenous Causes, and
2. Internal or Endogenous Causes. Let us discuss these in turn.

I. External Causes: The external or exogenous causes which are beyond the control of the industry usually affect the industry-group as a whole. There may be serval external factors causing a unit sick and which may vary from time to time from industry to industry and even from one point of time to another for the same industry. The important external factors causing industrial sickness include the following:

i. Changes in the industrial policies of the Government from time to time,
ii. Inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour.
iii. Lack and shrinkage of demand for the product.
iv. Recessionary trends hovering in the economy.
v. Frequent industrial strikes and labour unrest.
vi. Shortage of financial resources especially working capital.
vii. Natural calamities like drought, floods, etc.

In view of the nature of all these factors, these can broadly be classified into three categories:

(i) Government Policy, (ii) Environment, and (iii) Natural Calamities.

II. Internal Causes: Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various functional areas like finance, production, marketing and personnel. Many studies have brought out the

fact that sickness is normally caused by internal factors, in one way or other, related with the mismanagement in various operational areas (see Table 5.3).

TABLE 5.3 Cause wise Distribution of New Projects in Default

Causes	No. of Projects	% of the Projects	Contribution of Cause Default
1. Lack of good management	36	16.1	22.19
2. Poor Implementation	56	15.1	21.70
3. Marketing Problems	29	13.1	15.81
4. Non-Availability of Raw Materials	53	23.8	13.45
5. Shortfall of Working Capital	03	1.4	7.20
6. Labour Trouble	12	5.4	5.74
7. Technical/Operational Problems	13	5.3	5.55
8. Other Problems	21	9.4	8.36
Total	223	100.0	100.00

Majority of projects (53.8%) are found in default due to internal causes like problems of poor management, poor implementation, shortage of working capital and operational and labour problems.

Sandesara has delineated sickness from the angle of stages in which it may be routed. In the planning and construction stage, the unit may be found to be located at an uneconomic location, to have adopted an inefficient method of production or to be planning to produce an obsolete product. In the second stage of sickness, the unit may have committed some mistakes in recruitment and training of the workers, underestimates of various inputs such as powers, funds etc., which cannot be easily corrected later. The third and final stage of sickness may arise even when the unit is in full swing but the demand for product may have changed, new and advanced methods of production may have devised and meanwhile new competitors may also have emerged.

Instances are gallore to note that small scale units are mainly beset with external factors while large sick units are plagued by internal factors.

Small in India is literally too small. According to Economic Survey 1992-93, about 90% of sick units lie in small scale sector. A too small unit cannot withstand fluctuation setbacks,

frequent changes in government policies, market changes, etc. Small operates on very small margins and a small error can make the unit sick. Small units command small resources and expertise both in absolute and relative terms. Small is basically poor and unorganised set of the industry. These units work with large number of handicaps and constraints. All these shortcomings ultimately make small scale units highly prone to sickness.

5.15 CONSEQUENCES OF INDUSTRIAL SICKNESS

The main evil effects/consequences of industrial sickness on an economy have been locking up the economy's financial resources, wastages of scarce capital assets, loss of production and increase in unemployment. An attempt has been made in this section to discuss the various consequences of industrial sickness in a more orderly manner:

Huge Financial Losses to the Banks and the Financial Institutions: The banks and the financial institutions provide substantial funds to start an industry. To quote, by March 1992, the amount of outstanding bank credit against the sick units have reached a staggering figure of Rs.11,533.30 crores. These huge funds are locked up in 1336 non-SSI sick units and 245575 small sick units and 813 weak units. Obviously the locking up of substantial funds in the sick industrial units impinges on the future lending capacity of the banks and the financial institutions. Further, recovery of overdue takes an unduly long period of time and in many cases only a small portion of overdue amount is finally recovered. Thus, these bear an adverse effect on the financial health of the banks and the financial institutions.

Loss to Employment Opportunities: One of the serious consequences of industrial sickness has been loss to employment and, thereby, aggravating the most dangerous socioeconomic problem of unemployment in a labour surplus economy like ours. According to an estimate, nearly 30 lakhs of workers are likely to be affected by the closure of sick and weak units. In relative terms, about 6% of total employment in industrial sector is likely to be affected by industrial sickness. Out of total 30 lakh workers likely to be affected by closure of sick units, even more than two-thirds (68%) of total will be rendered jobless in small sector alone. This presents a grim prospect in the employment scenario of the country.

Emergence of Industrial Unrest: The closure of sick units causes not only unemployment, but leads to industrial unrest also. Whenever the workers are retrenched and rendered out of jobs, the trade unions oppose it and resort to industrial strikes. Such disturbances threaten the

peace and tranquility of the industrial environment. This results in setback to industrial production.

Adverse Effect on Prospective Investors and Entrepreneurs: Industrial sickness adversely affects the prospective investors and the entrepreneurs also. Due to sickness, the share price of the unit tumbles down which, in turn, adversely affects the stock market of the country. In this way, industrial sickness creates a psychology of despair for investments amongst the prospective investors. Added to this, the failure and closure of a unit acts as an unhappy example of disincentive to the prospective entrepreneurs who are planning to plunge into the same lines of production. On the whole, the industrial climate becomes non-conducive for the industrial development of the economy.

Wastages of Scarce Resources: In an under-developed economy like ours, the resources are already scarce. If these scarce resources are locked up in sick units, it becomes the wastage of scarce resources which otherwise invested would have yielded substantial returns to the economy.

Loss of Revenue to the Government: The government raises a substantial portion of its revenue from industrial units by way of various taxes and duties levied on them. But, when a large number of industrial units becomes sick, the possibilities for raising substantial revenue from the sick units by way of various levies are greatly reduced. Thus, industrial sickness results in loss of revenue to the Government also. The shortage of revenue ultimately affects the functioning of the economy as a whole.

The Planning Commission commenting on the consequences of sickness mentions: "The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders infructuous capital investment and generally creates an adverse climate for further industrial growth. While in advanced countries where there are adequate social security benefits, this is accepted as a normal feature of industrial scene. But such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce....clearly the problem of industrial sickness is an area to which the Government must give priority."

In nutshell, whatever may be causes, the consequence is always the same: Loss of employment and production to an economy already suffering from chronic unemployment and shortage of goods. Thus, industrial sickness is a bane on the Indian economy.

5.16 REMEDIAL MEASURES OF SICKNESS IN INDUSTRIES

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realisation of urgency to the solution of the sick industry problem in India. Therefore, this section deals with the remedial measures to detect the fast spreading disease of sickness in industries.

1. Industrial sickness is not an overnight occurence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It will not be less than correct to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.
2. In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness. The time has come to substitute the adage that 'what cannot be cured has to be endured' by 'what cannot be cured should be ended'. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labourers displaced due to unit closure is prevalent in the society.
3. At present, the attitudes of three different sets of a unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently For example, management seeks freedom to close the unit if it feels it is no more viable. Financial institutions think that whatever can be salvaged should be salvaged. Labour view is that in the event of the closure of the unit, they will lose job, providend fund and other benefits, therefore, the unit should continue production. Thus, all the three drag in different directions. But, if these diverse view points could be properly integrated, their approach could be integrated and their interests could also be converged, the unit can be salvaged in the best interest of all three.

4. It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large scale industries.
5. It is found that the rehabilitation programmes for sick small units are often carried out in an adhoc and haphazard manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit etc. However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.
6. Having taken a decision to rehabilitate a sick unit, the programme should be finalised quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates position and revival becomes a distant goal. At the same time, the rehabilitation programme need to be implemented in full as a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit. For instance, if the need-based funds are not released in full, the unit may not be able enough to operate above the breakeven point. As a result, the unit may continue incurring losses and the additional working funds may also be wiped out to meet such losses.
7. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small scale industry borrowers to identify units which are

8. becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take appropriate action.
9. Last but not the least, past experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves They start an industrial unit mainly to avail of subsidies, concessions and incentives

from the Government. We know that a small scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all. To quote, an entrepreneur may have land, building, machinery etc., but had no experience in functional areas like production and marketing. Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through the training programmes like Entrepreneurship Development Programme (EDP).

5.17 SUMMARY

Small scale sector is the best option for a country like in India where in on one hand there is acute problem of unemployment and on the other hand scarcity of capital. SSIs in India play a major role in contributing towards the progress in the economy of the country. This unit detailed you about the steps to start a SSI and various sources of information. Now you are aware of the incentives and subsidies which encourage them to set up small scale units. This unit has also made you understand the problems of SSIs. It also helps us to know the causes and consequence of industrial sickness and what are the remedial measures of sickness in industries.

SELF ASSESSMENT QUESTIONS

1. What do you mean by SSI? Give its characteristics.
2. What are the steps that must be performed to create a SSI?
3. What do you mean by sickness of business?
4. Describe in detail the various types of incentives and subsidies.
5. What are the Central Government subsidies and incentives?
6. What are the problems of SSIs?
7. What are the remedial measures to detect the fast spreading disease of sickness of industries?
8. What is the importance of SSIs?
9. What is the need for incentives and subsidies for a small sc ale industrial unit?
10. Small business is regarded as a seedbed for entrepreneurship discuss.