

PREFACE

In the curricular structure introduced by this University for students of Bachelor Degree Programme, Post Graduate Programme, P.G. Diploma Course, Certificate Course and Diploma Course, the opportunity to pursue Honours course in any elective subject is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason of receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

To enable young men and women belonging to middle/lower middle income families in urban and far-flung areas to undertake the course, the university has launched the one year Diploma Course on Entrepreneurship Development and Small Business Management. The main objective of the course is to inculcate a desire for beginning a job provider rather than a job-seeker.

Keeping this in view, study materials of the Diploma level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of a proper lay-out of the materials. Practically speaking, their role amounts to an involvement in 'invisible teaching'. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great deal of these efforts are still experimental-in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these do admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

Professor (Dr.) Subha Sankar Sarkar
Vice-Chancellor

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**DIPLOMA COURSE ON ENTREPRENEURSHIP DEVELOPMENT
AND
SMALL BUSINESS MANAGEMENT**

**Paper – 1
Entrepreneurship**

Course Writing
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Notification

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Professor (Dr.) Debesh Roy
Registrar



**Netaji Subhas
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**EDSBM - 1
Entrepreneurship**

PAPER - 1

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UNIT 1 □ INTRODUCTION

Structure

- 1.0 Objectives**
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1.0 OBJECTIVES

From this unit you will learn —

- What is entrepreneurship.
- Different factors influencing entrepreneurship.
- Characteristics of entrepreneur.
- Different types of entrepreneur

1.1 MEANING AND IMPORTANCE

The word entrepreneur has acquired special significance in the context of economic growth in a rapidly changing socio-economic climate, specially with reference to industry, both in developed and developing countries. Basically an entrepreneur is a person responsible for setting up a business or an enterprise. He is a person who brings about overall change through innovation for maximising social good. The entrepreneur is a visionary and an integrated person with leadership qualities.

The entrepreneur is one of the most important inputs in the economic development of a country. Entrepreneurial competence makes all the difference in the rate of economic growth. He is the positive catalyst in economic development. They are the change agents of a progressive economy.

One of the essential aspects of entrepreneurship is the ability to discover an investment opportunity and to organise an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty. It deals with innovating, planning and taking action to implement ideas into commercially profitable ventures. Entrepreneurship is a composite skill, resulting out of a combination of many traits and qualities. They mainly include imagination, readiness to take risk, ability to bring together and put to use other factors of production, capital, labour, land as also intangible aspects like human behaviour and knowledge. The entrepreneur is the master of a business orchestra, wielding his baton to which the band is played.

An increasingly important role is assigned to the entrepreneur in the small scale sector. Entrepreneurs enjoy an advantage specially in businesses that require close customer contact, personal supervision or where quality and capital intensity are inversely related.

The small units which are labour intensive and operate in niche markets are the entrepreneurs haven. Their customers are loyal and it is the duty of the entrepreneurs to keep them satisfied and prevent their moving over to competitors. Thus it is the entrepreneurial venture which is capable of such concentrated efforts. Being small they are flexible and can easily adapt new technology. An entrepreneur can use his innovative skills and improve upon the products at minimum cost and time.

1.2 EVOLUTION OF THE TERM 'ENTREPRENEURSHIP'

The word entrepreneur is derived from the french verb *entreprendre*, which means to undertake. The term referred to undertakers, who took the risks of a new enterprise. In the early 16th century Frenchmen who organised and led military expeditions were

referred to as "entrepreneurs". The term was applied to business initially by the French economist, Richard Cantillon, in 1755 to designate a dealer who purchases the means of production for combining them into marketable products. He described the entrepreneur as a person who pays a certain price of a product to resell it at an uncertain price. This idea was expanded in the early 19th century by Jean Baptiste Say who conceptualised the entrepreneur as an organiser of a business firm, central to its distributive and productive functions. According to him, an entrepreneur is one who shifts resources of the economy from an area of lower productivity to an area of higher productivity and greater yield. He combined the economic risk taker of Cantillon with the industrial manager of Smith into an unusual character. Such an entrepreneur influenced society by creating new enterprises and at the same time was influenced by society to recognise needs and fulfil them through astute management of resources. In 1848, British Economist John Stuart Mill coined the term entrepreneurship as the fourth factor of economic endeavour. But today's entrepreneur has travelled a long way from the view of Adam Smith, being one who only provides capital without taking active part in the leading role of an enterprise. According to the *Encyclopædia Britannica*, an entrepreneur is an individual who bears the risk of operating a business in the face of uncertainty about the future conditions.

Entrepreneurship is the propensity of one's mind to take calculated risks with confidence to achieve a predetermined business objective. It is the risk taking ability of an individual coupled with correct decision making. McClelland describes the innovative characteristics of an entrepreneur. Entrepreneurial role involves doing things in a new and better way. It calls for decision making under uncertainty. He emphasised the need for achievement as the most critical factor in explaining entrepreneurial behaviour. In the views of Carl Menger economic change does not arise from circumstances but an individual's awareness and understanding of those circumstances. The entrepreneur is therefore the change agent who transforms resources into useful goods and services, often creating the circumstances that lead to industrial growth.

But it was the renowned economist Joseph Schumpeter who propounded that **the rate of growth of an economy depended to a great extent on the activities of entrepreneurs**. An entrepreneur is the catalytic agent that makes any free economic system grow and prosper. He wrote, 'an entrepreneur in an advanced economy is an individual who introduces something new in the economy—a method of production not tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, new source of raw material, or new markets and the like'. An entrepreneur's function is to 'reform or revolutionise the pattern of production by exploiting an invention or more generally an untried technological

possibility for producing a new commodity, or producing an old one in a new way, by opening of a new source of supply of materials or a new outlet for products, by reorganising an industry and so on.' So an entrepreneur is one who

- innovates
- raises money
- assembles inputs
- chooses managers
- sets the organisation going

But the success of an entrepreneurs lies in his capability to innovate. This innovation may be in the form of introduction of a new product, or a marked variation in the existing product, discovery of a new market for existing products, identification of a fresh source of supply or by introduction of changes in the organisation and management of the business.

Peter Drucker has observed that 'innovation is the specific tool of entrepreneurs, by which they exploit changes as an opportunity for a different business or a different kind of service.' Entrepreneurship occurs when resources are redirected to progressive opportunities, not used to administer efficiency. According to him, three conditions must be fulfilled in order to be a successful entrepreneur, namely

- Innovation through knowledge and ingenuity. It makes great demands on diligence, persistence and commitment.
- Innovation must be developed on the strengths of the business and the forte of the entrepreneur
- Innovation must be market focussed or market driven.

Besides, an entrepreneur is also one who bears the risk. Since he is the initiator of the business idea, it is his responsibility to give it a commercial shape. In the process, he is expected to arrange for the startup capital and provide or organise the technical know how required. Besides, he is responsible for successful marketing of the business output. Hence the entire risk of running the business is to be borne by the entrepreneur. Noah Webster thinks entrepreneur is one who assumes the responsibility of the risk and management of business.

However, very often distinction is to be made between the resources an entrepreneur aims to control and those he presently controls. What he has control over, is not expected to influence what he urges to achieve. J. H. Donnelly suggests that 'entrepreneurship can be considered a behaviour, encompassing an individual's pursuit of opportunity without regard to the resources the entrepreneur currently controls.'

In general the term entrepreneur is involved in the four key elements

- Innovation
- Vision
- Organising skill
- Risk bearing.

All these four are interrelated and form a continuous business process. Entrepreneurial vision encompasses the relentless pursuit for operational excellence by using innovative technology and being responsive to the needs of the market place.

CHECK YOUR PROGRESS I

1. Discuss the importance of innovation with respect to entrepreneurship.
2. Why is entrepreneurship for a small Business?
3. Discuss the risk bearing aspect of an entrepreneur's role.

1.3 FACTORS INFLUENCING ENTREPRENEURSHIP

The entrepreneur has an intrinsic quality, an urge to exercise power over things and objects. Thus sociologists consider him as a sensitive energiser. Entrepreneurs do not emerge spontaneously on their own. While the other factors of production are hireable, enterprise is not. A blend of social, psychological and economic factors reinforce in an entrepreneur the urge to excel others and seek satisfaction in creating his own new enterprise instead of seeking a security oriented job. Entrepreneurs appear to have been motivated by a combination and interaction of the following factors of environment, namely, socio-economic environment, family background, standard of education and technical knowledge, financial stability, political stability and government's policy, caste and religious affiliations, availability of supporting facilities, motivation to achieve and personality of an individual.

1.3.1 PSYCHOLOGICAL FACTORS

Motivation refers to the way in which urges, drives, desires and aspirations, strivings or needs direct control or explain the behaviour of human being. Motivation factors again are comprised of three basic elements - entrepreneurial motivation, personal efficiency and coping capability. What motivates a person to do something new or seek something better is his inner urge which directs him towards entrepreneurial activities. This urge also compels an individual to use available resources in a more economic manner than be negligent about it. Also important from this point of view

is the power of motivation which is actually the urge to control others and to direct the course of activities of others towards the end which one seeks to attain. These motivational factors induce the person to undertake entrepreneurial activities which relate to creation of a new business. This also means to excel in the performance in carrying out any activity by persistent efforts, unlike others.

The psychological urges which lead men to set up their own successful business enterprises begin very early in life and have a cumulative effect. Entrepreneurs prefer to taste success in their own unique way. They find more satisfaction in getting an opportunity to express substantially their creative faculties rather than submitting to rigid and structured roles. Something more than pure academic excellence is a prerequisite for becoming an entrepreneur of success and repute.

The decision to become an entrepreneur is the basic urge. The inner urge is to be on one's own, to be independent and to do something different. This is backed by the impetus to use one's own talents and skills to earn money and achieve a good life. This is culminated in the fact that the urge to be an entrepreneur is backed by the feeling of overcoming dissatisfaction in the present rigid and structured format he is operating in.

1.3.2 SOCIAL FACTORS

The influence of early childhood and other social roles are determinant factors for the formation of that personality which motivates an individual towards becoming an independent business man or entrepreneur. Men who establish new business are men who have right from their childhood faced different sets of environment in their family, school and other social institutions. Many of them have a history of a childhood of impoverishment and stress. Economic deprivation often works as an influencing factor. Family situations where security and non-risk bearing are not the ultimate focus, encourage their children to take up entrepreneurial activities. Established, mercantile or trading families strongly influence their children to take up entrepreneurship of the family business. In such cases, inherited businesses have been the field of enterprise. But the success and future development of such family businesses depends on the ability of their entrepreneur sons or daughters. However, in India community has been a strong influencing factor on people taking up entrepreneurial activities. The traditional trading communities have influenced their offsprings into entrepreneurship. Caste and custom has been the key factor in such entrepreneurial motivation. Education has had a significant influence on entrepreneurship. More and more people with high academic attainments have been influenced into joining the ranks of entrepreneurs. Entrepreneurship is also influenced by imparting need based training and assigning jobs to individuals best suited to them.

1.3.3 ECONOMIC FACTORS

Availability of capital is a stimulant to an entrepreneur to start a business. But this necessarily has to be backed by the technical knowhow required for the commercial success of a venture. An individual is influenced to take up entrepreneurial tasks by the policy measures of the government that provide assistance, incentives, concessions and necessary overhead facilities to start a venture. Financial, technical and several other facilities provided to entrepreneurs by the state agencies also promote entrepreneurship. Restrictions and quotas offering protection to the small units, by way of cheap credit, soft loans and assured markets have encouraged many individuals to start their own ventures. Supportive programmes of the government provide the entrepreneur the much needed backup for the starting and further continuation of the business. Encouraging government policies influence a positive bend towards entrepreneurship.

1.3.4 ENVIRONMENTAL FACTORS

An endeavour on the part of the business community as well as the government to provide an environment conducive for running a business influences the successful conduct of entrepreneurship. Moreover, it may be said that entrepreneurship is not influenced by a single factor but is the outcome of the right mix of the various factors mentioned above.

1.4 CHARACTERISTICS OF AN ENTREPRENEUR

It is not enough to know about the characteristics of an entrepreneur, rather it is wiser to give a quick glance over the characteristics of a successful entrepreneur.

Mental ability consisting of intelligence and creative thinking. His mental agility should be such that he is able to anticipate changes and analyse situations under which he has to make decisions. He should be visualising the future and adapt his enterprise accordingly. Objective of the entrepreneur as regards his entrepreneurial venture should be precise and his activities must be focussed in that direction. His self confidence must reflect in his activities.

Good human relations with customers, employees as well as suppliers is key to an entrepreneur's success. Such cordial relationships would motivate the employees to perform efficiently, suppliers to provide value for the money spent and customers loyalty and faith. This needs to be supported by clear communications skills on part of the entrepreneur.

Leadership traits of an entrepreneur need not be over emphasised. This would

initiate confidence among the employees of an entrepreneurial business. The leader acts as a part of the team, taking a down to earth person-to-person approach. Being accessible to the general employee is an important way of keeping communications clear.

Technical knowledge backed by the ability to apply such knowledge in commercially successful activities is essential for the success of an entrepreneur. He ought to be interested in technological advancement and improvement of his product or service. The challenge of taking risk must attract a true entrepreneur. They seek satisfaction in achieving difficult but realistic tasks. As a risk taker an entrepreneur has to make decisions under conditions of uncertainty. Risk taking is essential in realising one's potential as an entrepreneur.

CHECK YOUR PROGRESS II

1. What role does motivation play in an entrepreneur activity?
2. What kind of family involvement encourages entrepreneurship?
3. To what capacity is the present eco-structure responsible for cultivating entrepreneurship?

1.5 ENTREPRENEUR AND INTRAPRENEUR

Intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organisational environment. Entrepreneur does the same but outside the organisational framework. Corporate entrepreneurs are intrapreneurs. The term is used to describe a process whereby big companies set out to encourage entrepreneurial characteristics among their own managers.

Intrapreneurship is sometimes referred to as corporate entrepreneurship. It is concerned with innovation that leads to new corporate divisions or subsidiary ventures in established large firms. The concept of entrepreneurship does not exclude managers in large organisations from being entrepreneurs if they combine resources in unusual ways to create innovative new products or services. However, because entrepreneurs take personal investment risks that corporate managers rarely do, there is reason behind corporate entrepreneurship being termed intrapreneurship. Corporate managers may commit time and energy, may perhaps also risk their careers, but there is little evidence of corporate managers risking personal investment as capital to champion a corporate innovation. Consequently the lion's share of corporate profits evolving out of innovative ideas of their key personnel go to the corporate booty, and the innovator's rewards are limited to bonuses and promotions.

1.6 TYPES OF ENTREPRENEUR

The entrepreneurs in business are broadly classified according to the types of business, use of professional skill, motivation, growth and stages of development.

1.6.1 ACCORDING TO TYPE OF BUSINESS

Entrepreneurs are found in various types of business occupation of varying size.

Business Entrepreneur : Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialise their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertisement agency, ready-made garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

Trading Entrepreneur : Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade. Britain, due to geographical limitations, has developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing many ideas ahead which promoted their business.

Industrial Entrepreneur : Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product, the entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in any industrial unit such as the electronic industry, textile units, machine tools or video cassette tape plant and the like.

Corporate Entrepreneur : Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some Law or Act which gives it a separate legal entity. A trust registered under the Trust Act, or a company registered under the Companies Act are examples of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.

Agricultural Entrepreneur : Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. They are motivated to raise the productivity of agriculture through mechanization, irrigation and application of technologies for dry land agriculture. They cover a broad spectrum of the agricultural sector and includes agriculture and allied occupation.

1.6.2 ACCORDING TO USE OF TECHNOLOGY

The application of new technology in various sectors of the national economy is essential for the future growth of business.

Technical Entrepreneur : A technical entrepreneur is essentially an entrepreneur of "craftsman type". He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering service. The greatest strength which the technical entrepreneur has is his skill in production techniques.

Non-technical Entrepreneur : Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

Professional Entrepreneur : Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established. A professional entrepreneur sells out the running business and starts another venture with the sales proceeds. Such an entrepreneur is dynamic and he conceives new ideas to develop alternative projects.

1.6.3 ACCORDING TO MOTIVATION

Motivation is the force that influences the efforts of the entrepreneur to achieve his excellence in job.

Pure entrepreneur : He is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for personal satisfaction in work, ego or status.

Induced entrepreneur : He is one who is induced to take up entrepreneurial activities due to the supportive policy measures offered by the state, providing assistance, incentives and concessions.

Motivated entrepreneur : New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and

marketing some new product, if the product is developed to the saleable stage, the entrepreneur is further motivated by reward in terms of profit.

Spontaneous entrepreneur : They start their business from the urge of their natural talent. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

1.6.4 ACCORDING TO GROWTH

The development of a new venture has greater chance of success.

Growth entrepreneur : They are the ones who necessarily take up a high growth industry, with substantial growth prospects.

Super growth entrepreneur : These are entrepreneurs who have shown enormous growth of performance in their venture. The growth performance is indicated by the liquidity of funds, profitability and gearing.

1.6.5 ACCORDING TO STAGES OF DEVELOPMENT

First generation entrepreneur : He starts an industrial unit with his own innovative skill. He is essentially an innovator, combining different technologies to produce marketable product or service.

Modern entrepreneur : He undertakes those ventures which go well along with changing demand in the market.

Classical entrepreneur : He is a stereotyped entrepreneur who aims to maximise his economic returns along with survival of the firm with or without economic growth of the nation.

1.6.6 OTHERS

Innovating entrepreneur : Such an entrepreneur is characterised by aggressive assemblage of information and analysis of result deriving from a novel combination of factors. Such an entrepreneur need not innovate but convert even an old established product by changing their utility value, their economic characteristics into something utilitarian.

Imitative entrepreneur : He is ready to adopt successful innovation by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

CHEK YOUR PROGRESS III

1. What is the difference between a trading & industrial entrepreneur?
2. Who is an induced entrepreneur?
3. What benefits are enjoyed by first generation entrepreneurs?

1.7 BARRIERS TO ENTREPRENEURSHIP

The slow pace of propensity to enterprise is mainly due to the presence of a tangible set of barriers prohibiting the process of entry into, continuing in and eventual exit from a business venture of a would be entrepreneur. Entry barriers are those forces limiting access to identified business opportunities. It very often takes the form of a cultural bias in identifying and managing the entrepreneurial development process. Lack of industry specific data and market information to start with, due to the ineffective infrastructural base is also an important obstacle in the entry of an entrepreneur. Unorganised capital market exploits the entrepreneur who has not received any help from the unsympathetic state agencies. Women do face certain initiating troubles, for which no one but society is responsible.

Survival barriers are constraints on the essential conditions for survival of an entity. The dynamic world of business offers the challenge of fast changing technology. This is not always possible for the entrepreneur to handle, given his limited technological and financial resources. The lack of dissemination of information is an important obstacle in the survivorship battle of an entrepreneurial venture.

Exit barriers are forces limiting the termination of entrepreneurial business that have outlived their business viability. This primarily takes the form of sunk assets which are difficult to retrieve and the emotional commitment that lies along with years of hard toil that has gone into such business.

Barriers, single or combined are said to have an impact on the strategic and long term planning perspective of the entrepreneur and could also have an impact on the government's promotional policies concerning the entrepreneurial venture. A precise list of such obstacles may be as follows:

1. Lack of viable concept
2. Inability of commercial application of innovative idea
3. Lack of market knowledge
4. Lack of technical skill
5. Lack of seed capital/ working capital
6. Lack of business know how
7. Lack of motivation
8. Social stigma/ societal pressures
9. Legal constraints and regulations
10. Monopoly and protectionism

Solutions to obstacles in entrepreneurship

1. Market contacts
2. Local incubator companies
3. Capable local manpower
4. Technical education and support
5. Supplier assistance and credit
6. Local venture capitalists
7. Venture savvy bankers
8. Capable local advisors
9. Entrepreneurial education
10. Successful role models

CHECK YOUR PROGRESS IV

1. How can an entrepreneur solve the problem arising out of lack of market knowledge.
2. Do monopoly and Protectionism really Pose a barrier to entrepreneur?
3. In the present day entrepreneurship is a social stigma associated with uncertain future — Discuss.

1.8 EXERCISES

• Short Questions :

1. What do you mean by entrepreneurship ?
2. What is psychological factors?
3. Distinguish between entrepreneur and intrapreneur.
4. How do you solve the obstacles in entrepreneurship.

• Long-Answer Questions :

1. Discuss the barriers to entrepreneurship.
2. Classify the entrepreneurs.

UNIT 2 □ ENTREPRENEURIAL MOTIVATION

Structure

- 2.0 Objectives**
- 2.1 Motivation**
- 2.2 McClelland's Need — Achievement Theory**
- 2.3 Culture**
- 2.4 Values / Ethics**
- 2.5 Risk taking behaviour**
- 2.6 Exercises**

2.0 Objectives

From this unit you will learn —

- What is motivation.
- Theory of motivation.
- Effect of culture an entrepreneurships.

2.1 MOTIVATION

Motivation is an indispensable function of management. It encompasses complex aspects on human behaviour which is rooted in the motives within a person that induce him to behave in a particular manner. The concept of motivation is by and large psychological which 'relates to forces operating within the individual that compel him to act or not act in certain ways'. It refers to the way in which 'urges, drives, desires, aspirations, strivings or needs direct, control or explain the behaviour of human beings'. Motivational factors constitute the inner urge present in an individual which continuously demands him to do something new and unique as also to perform better than others. This motivation to achieve is termed efficiency motivation. The motivational factors comprise of three basic elements - entrepreneurial motivation, personal efficiency and coping ability.

McClelland and Winter have made considerable studies and concluded that what

motivates a person to do something new or to seek something better is the inner urge which directs him towards such ends. This urge also forces a person to use resources more efficiently than others who are negligent of its use. The power behind motivation is really the urge to have control over others and to direct their course of activities towards the end which one seeks to attain. These motivational factors induce a person to undertake entrepreneurial activities which lead to creating a new business. It also implies excelling in performance of activities by persistent efforts.

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in his job performance. He is also motivated to influence others by demonstrating his business acumen.

An entrepreneur who is motivated by psychological and economic rewards is a pure entrepreneur. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status. On the other hand, an entrepreneur is termed an induced entrepreneur when he is induced to take up the entrepreneurial tasks by the policy measures of the government that provide assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the induced entrepreneurs take up the challenge due to financial, technical and several other facilities provided to them by the state agencies to promote entrepreneurship. Restrictions and quotas offering protection to the small units have encouraged many individuals to start their own ventures.

Entrepreneurs are also motivated by their desire for self fulfilment. They come into being because of the possibility of making and marketing some new product for the consumers. When the product reaches its saleable stage, the entrepreneur is further motivated by reward in terms of profit.

On the other hand there are people who spontaneously start their business with the help of their natural talents. They are persons with initiative boldness and confidence in their own ability which motivate them to undertake entrepreneurial activities. Such entrepreneurs have a strong confidence and conviction about their inborn ability.

2.2 MCCLELLAND'S NEED-ACHIEVEMENT THEORY

A distinctive theory of work motivation has been developed by David McClelland which places a great emphasis on needs and individual differences. McClelland stated that a country's economic development largely depends on the

extent to which its citizens have a **need for achievement**. Studies made by him and others indicate that there is a strong positive correlation between the need for achievement and performance of executive success. This need, McClelland discovered, could be developed in mature people because an individual's drives or motives are not fixed as a result of childhood experiences.

To measure needs, McClelland uses the **Thematic Apperception Test (TAT)**, consisting of a series of ambiguous pictures. Individuals are asked to write stories by discovering characters in the pictures. If the individual write stories that lay stress on doing one's job more effectively, making progress in one's career, and/or accomplishing goals, he is expressing a high need for achievement. Individuals who possess a high degree of achievement motivation spend a major portion of their time pondering over achieving goals and means of doing so.

Five conditions are found to be important for an individual possessing a high level of need achievement to manifest it by achieving goals:

1. The goal is presumably responsible for identifying solutions to major problems.
2. The individual enjoys moderate risk taking as function of skill, not chance; enjoys responsibility for outcomes.
3. The individual is allowed to set moderate achievement goals and take calculated risks.

[One proximate reason of why many companies have moved into a management by objectives (MBO) program is that there is a positive correlation between goal setting and performance levels.]

4. The individual needs rapid feedback on how he is performing.
5. The individual possesses skill in long-range planning as also organizational abilities.

Successful managers are experts at looking at future objectives and considering alternative ways of reaching those objectives.

Again, according to McClelland needs are of three broad categories : **achievement, power and affiliation**. The first one is individualistic in nature, where the other two are interpersonally oriented. Achievement refers to desire to excel or achieve in relation to a set of standards. Power is defined as the desire to control others or have influence over others. Affiliation refers to desire for friendship, cooperation and close interpersonal relationships.

He mainly focused on the achievement motivation and emphasised on the following two important points in this context :

1. A strong achievement need was related to how well individuals were motivated to perform their work tasks.
2. The achievement need could be strengthened by training.

It was noted that entrepreneurs and sales people are high achievers, who choose their careers because all the five conditions (referred to above) are present.

A high achiever is the one who has the following characteristics :

1. An achiever is supposed to have a compelling need for personal achievement in doing the job or task, rather than job related rewards. He is not motivated by monetary rewards but by job and goal performance. The implication is that there is a strong need to excel in performing the task (for the means as well as the end). The achiever is eager to do it more efficiently than it has been done ever before, i.e., to do it better.

2. An achiever prefers to take personal responsibility for solving others' problem rather than leaving the outcome to them. Consequently an achiever can be viewed as a loner, i.e., one who prefers to be alone and at times he seems to have difficulty in delegating authority.

3. An achiever prefers to set moderate goals he thinks he can achieve. His goal setting involves 'stretching' to achieve the results because easy goals (high probability of success) would provide no challenge. Difficult goals (low probability of success) implies that the achiever is gambling on success ; not only would the achiever lose control of the situation , but also there could be no sense of achievement satisfaction from the event if it fails or is accomplished by sheer luck or chance.

4. An achiever prefers immediate and concrete feedback on performance. The rapid feedback is to assist achiever in goal measurement. The nature of the feedback has to be in terms of goal performance (rather than personality variables) so that the achiever is enabled to determine exactly what has to be done to improve performance.

Further, the need for power and affiliation was focussed. Power orientated individuals spend a disproportionate amount of time thinking about the manner in which they influence and control others through such techniques as direct confrontation, arguments and giving rewards and punishments. But a power

orientated manager is successful only when he employs a mature democratic coaching style. Most entrepreneurs are characterised by low needs of affiliation. The theory propounded that managers with high need for power, under most circumstances use it for the benefit of the organisation. They use power to increase the power of others through participation, support and positive reinforcement of accomplishments. They view their role as managers as a way to expand power for themselves and for other members of the organisation rather than hoard power. In short, entrepreneurs placed in situations of crisis or turmoil function most effectively if they possess a high need for achievement.

CHECK YOUR PROGRESS I

1. According to McClelland, on what does country's eco development depend on?
2. What is the TAT?
3. Who are power oriented individuals?

2.3 CULTURE

Culture refers to that part of the total repertoire of human action and its products, which is socially, as opposed to genetically, transmitted. Edward Burnett Tylor defined culture of a civilisation as 'a complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities and habits acquired by man as a member of society.' Culture is the 'total life way of people'.

The customs, ideas and attitudes shared by a group, which make up its culture, are transmitted from generation to generation by a learning process rather than biological inheritance. Adherence to these customs and attitudes is regulated by a system of rewards and punishments, specific to each culture. Culture consists both of material culture and of non-material culture. Material culture involves man made things and man made alterations of the environment. Nonmaterial culture includes intangible factors like language, ideals, beliefs, values, character, qualities, skills, etc.

The organisation of culture refers to the social structure and the integration of traits, complexes and patterns that make up the cultural system. The common institutions of modern culture are the economic system, the educational system, aesthetic and recreational institutes. They have been established to meet the society's common needs of a biological, sociological, psychological, economic and political nature. The type and nature of institutions reflect the common goals, aspirations

and ways of achieving them by the individuals, groups and the overall organisation of the culture.

The culture of business is similar to that of society. It is alive, vibrant and constantly evolving and changing. Business or societal culture is not rigid or stagnant. A progressive culture readily evaluates and responds to stimuli which arise internally or externally. It does not fear or resist stimuli without evaluation. It is only when cultures adapt or change that great progress occurs -be it in society or business. Cultural hybrids are stronger than their monocultural originals, be it a race or a business. Changes in the culture of a firm as in societies occur when the leader provides stimulation with ideas that challenge tradition.

Entrepreneurial culture implies vision, values, norms and traits that are conducive for the development of the economy. It is to be nurtured, fostered and promoted. Development of an economy is not due to the presence of the markets and minerals or factories but the entrepreneurial culture which actually exploits these resources.

2.4 VALUES / ETHICS

Ethics is concerned with the right or wrong, the good or bad of human conduct. They provide the base for deciding whether a particular case of business action is morally right or wrong. This necessarily implies that a given set of criteria exists by which to judge the correctness and merits of a given course of action. These criteria are moral and social rules of conduct that society accepts at any point of time. But the business is exposed to an anticultural milieu and hence its ethics are as multivariate as the culture of the society it operates in.

2.5 RISK TAKING BEHAVIOUR

Entrepreneurship is the propensity of the mind to take calculated risks with confidence to achieve a predetermined business objective. In essence, it is the risk taking ability of an individual coupled with correct decision-making. The capacity to take risk independently, with a view to making profits and seizing an opportunity to make more earnings in the market orientated economy is the dominant characteristic of the entrepreneur. A business risk involves uncertainty due to changes in tastes and preferences of customers, techniques of production and new inventions. Such risks are not insurable. If they materialise the entrepreneur has to bear the loss himself. So an entrepreneur tries to reduce the uncertainties by his initiative, anticipation, vision and judgement.

CHECK YOUR PROGRESS II

1. How does social culture affect entrepreneurship?
2. What do you mean by organisational culture?
3. What do you mean by risk taking behaviour of an entrepreneur?

2.6 EXERCISES

• Short answer type questions :

1. What is motivation?
2. What do you mean by values?
3. What are essential factors comprising motivation?
4. What are the characteristics of high achiever?

• Long-Answer Questions :

1. Discuss the Need-Achievement Theory.
2. How do you describe the risk taking behaviour?
3. The concept of entrepreneurship stems from an urge. Discuss.
4. What do you mean by need for power and achievement?
5. How does the culture of an organisation influence entrepreneurship?

UNIT 3 □ CREATIVITY

Structure

- 3.0 Objectives**
- 3.1 Creativity and entrepreneurship**
- 3.2 Steps in Creativity**
- 3.3 Innovation and inventions**
 - 3.3.1 Using left brain skills to harvest right brain ideas**
 - 3.3.2 Legal Production of innovation**
- 3.4 Skills of an entrepreneur**
- 3.5 Decision making and Problem Solving**
- 3.6 Exercises**

3.0 OBJECTIVES

From this unit you will learn —

- What is creativity?
- Relation between creativity and entrepreneurship.
- What is innovation?
- Different skills of an entrepreneur.

3.1 CREATIVITY AND ENTREPRENEURSHIP

An important aspect of entrepreneurship is creativity. Creativity is the ability to bring something new into existence. It focusses on the ability of the entrepreneur. This concept is extended to take its commercial form, which goes by the name of initiative. Initiative is the action necessary to put the creative idea into practice and give it a practical shape, or even a commercial form. Innovation is a process of doing something new, such as developing a new product or a new process. According to D. H. Holt, 'innovation is the transformation of creative ideas into useful applications, but creativity is a prerequisite to innovation'.

Creativity is a state of mind. Thus, it is not readily possible to hire creative people and take innovative steps in business. Though creative people are definitely scarce, there is an element of creativity in every individual. In order to foster a climate that encourages creativity and develops initiative, the following conditions are noteworthy.

1. Tolerance of risk by encouraging individuals to experiment without fear of the consequences if they fail. Mistakes are treated as learning opportunities.
2. External controls by way of rules, regulations and policies kept at the minimum.
3. Narrowly defined jobs create myopia. Diverse job opportunities give individuals a broader perspective.
4. Emphasis on objectivity and specificity to a great extent constraints creativity.
5. Diversity of opinions is seed bed of creativity. Absolute harmony and agreement between individuals need not be assumed to be evidence of high performance.
6. Certain ideas appearing to be impractical initially lead to innovative solutions.
7. Alternative routes to goal attainment often lead to creative ideas and techniques.
8. Free flow of communication facilitates cross-fertilisation of ideas.

Entrepreneurs need ideas to pursue but ideas hardly materialise accidentally. Ideas normally pass through a long evolutionary process. In other words, ideas evolve through a creative process whereby men with imagination germinate ideas, nurture them and develop them successfully.

3.2 STEPS IN CREATIVITY

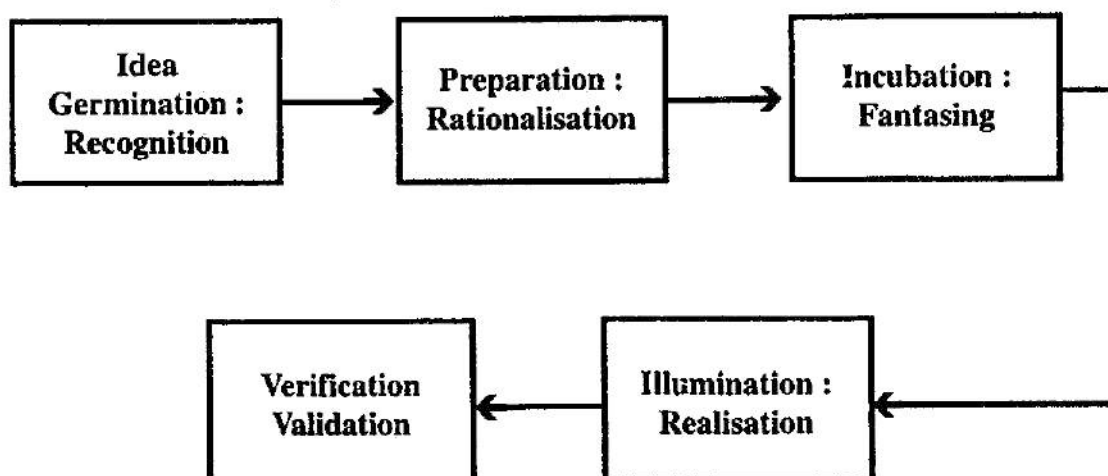
This creative process can be observed to be divided into five stages, namely,

1. Idea germination,
2. Preparation,
3. Incubation,
4. Illumination and
5. Verification.

Idea germination is the sowing stage of the process. Most creative ideas can be traced to an individual's interest or curiosity in a particular area. Once a seed of curiosity has taken the form of a focussed idea, creative people make a thorough search for the answer, either through solving the problem, or by observing past experiences, or by extensive market research. An individual with an idea will thereafter think about it and concentrate his energies on rational extension of the idea and how this can be converted into a commercially feasible venture. Most ideas evolve in the minds of creative people while they go about their daily life. But once the idea is sown and taken shape it remains in the backburner: this means that the subconscious mind is given enough time to assimilate information collected from various sources. Incubation is a stage of mulling it over while the subconscious intellect controls the whole creative process. Illumination occurs when a certain idea resurfaces a realistic creation. It is this stage which selects creative people who find a way to create value from among a host of people living in a world of illusion. An idea once illuminated in the mind of an individual still has little meaning unless verified as realistic and useful. The significance of entrepreneurial effort lies in the fact that it is essential to translate an illuminated idea into a verified, realistic and useful application.. Such verification refers to the development of knowledge into application. During this stage any ideas will be rejected because they do not appear to have any practical relevance. At this stage it also needs to be enquired whether the idea has already been introduced in the market or not.

Creativity is the essence behind innovation, which in turn is the source of entrepreneurial strength. Innovation is the means by which the entrepreneur either creates new wealth producing resources with enhanced potential for creating wealth.

The Creative Process



CHECK YOUR PROGRESS I

1. What is innovation?
2. Discuss the factors that encourage creativity among individuals.
3. What do you mean by incubation as a step on the process of creativity?

3.3 INNOVATION AND INVENTION

Innovation is, however different from invention. Innovation is the process of doing something new - either developing a new product or developing a new method for producing an old product. Schumpeter first pointed out that innovation does not just refer to conceiving new ideas, but it implies action as well. When people have passed through the illumination and verification stages of creativity they may have become inventors, but they are not yet innovators. Invention is the development of new idea which results in creation of new knowledge. On the other hand, innovation is the conversion of a new idea into its real life applications, the result of which is new products, processes or new technical knowledge.

Inventors are not limited to those who create new products. They also include people who are able to identify new technological processes, new forms of plant life and new designs. Each of these, incidentally can lead to patents. But an innovator must have an idea which is not only new but has some value to people in society. It must not only be useful but must have marketability.

In this context, it is useful to know about some contemporary issues which the modern day entrepreneur has to be well versed with. Most entrepreneurs will not be inventors but all entrepreneurs are concerned with protecting their ideas.

3.3.1 USING LEFT BRAIN SKILLS TO HARVEST RIGHT BRAIN IDEAS

Creativity was at one time explained as a on-rational process of incubating ideas, allowing the subconscious mind to wander and to pursue fantasies. But substantial research has shown that the human brain has two distinct hemispheres. One, the right hemisphere is the creative side where spatial; relationships are developed, intuition prevails and non-verbal imaging influences ones behaviour. The other the left hemisphere, is the analytical side where the abstract thoughts and concepts may be formulated, but only through logical and rational process. Psychologists suggest that most people tend to have a dominant orientation, either to the left side (prone to rational and analytical behaviour) or to the right side (prone to creative and intuitive behaviour). From an entrepreneurial perspective,

the right brain skills are crucial for the vision, necessary to be creative, but innovation does not occur until left brain rationalisation takes place. Integrating predispositions from both hemispheres is the critical behaviour needed to be a successful innovator, to use left brain rationality to harvest right brain creativity.

3.3.2 LEGAL PROTECTION OF INNOVATION

A patent is grant of property right by the government to the inventor. Patents are exclusive property rights that can be sold, transferred, willed, licensed or used as collateral like other assets. In fact most independent inventors do not commercialise their inventions or create new products from their ideas. Instead they sell or license their patents to others who have the resources to develop products and commercial markets. A patent is an exclusive right given to an individual or firm to use a particular process or to make or sell a specific product for a predetermined period of time. During that period the patent holder has a monopoly over the patented product or process because the patent gives the inventor the right to prevent others from using his patented processor making or selling his patented product.

The rationale behind the patent system is based on the belief that innovations benefit society through the development of improved products or processes, that lower costs or increase efficiency. Therefore some incentives should be provided to individuals and firms for incurring the risks associated with innovative activities. The system also, prevents the inventor from being cheated by way of others reaping commercial benefits from it before the total costs incurred in connection with developing the invention are fully recovered.

Trademark is any word, name, symbol or device or any combination thereof, adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured and sold by others. They can be used in commerce, such as Coke is the trademark of Coca-Cola Corporation. A trade mark can also be a symbol, such as Apple Computer Corporation's logo of an apple with a bite on the side. Copyrights are similar to patents, but they establish ownership and protection for creative endeavour, more specifically intellectual property. In case of a copyright, an intellectual property is protected for the life of the originator plus fifty years.

3.4 SKILLS OF AN ENTREPRENEUR

There is a debate on whether entrepreneurship can actually be taught. But more than being taught it is the mindset of the entrepreneur that is to be cultivated,

nurtured and developed. While skills can definitely be taught the spirit of entrepreneurship has to be imbedded in the heart of the entrepreneur. The commonly acknowledged skills that are essential for an entrepreneur are communication skills, interpersonal skills, networking skills, negotiation skills, analytical skills and planning skills.

An entrepreneur has to communicate meaningfully, effectively and at the same time in a pleasant manner. In order to achieve this he has to be a good listener. To listen is to allow maximum room for freedom of expression. The desire and capacity to listen is a prerequisite of a good communicator. Listening should be accompanied by favourable facial expressions, showing genuine interest in what is being said. Other forms of communicating, using body language when applicable is a positive aspect of communication skills of an entrepreneur.

Interpersonal skills can be least taught. An entrepreneur will master cordial interpersonal skills only when he teaches himself by observing others who are good at it or by observing situations from which he may draw his own inferences. Caring should be the key word of an entrepreneur's activities. In order to develop cordial interpersonal relationships an entrepreneur has to be approachable, he must have built a bridge from where he is not a wall around himself. The key to developing interpersonal relations is to interact with others on any occasion with sincerity.

Good negotiation skills must be supported by sincerity, faith and honest intention. A skillful negotiator must be always prepared to steer negotiations in a reasonable and tactful manner. This has to be preceded by careful study of all documents involved in the deal. Unwanted information should not be divulged during the process of negotiation. Even if the deal does not work out the entrepreneur should remain friendly and open for future deals.

Analytical skill of an entrepreneur refers to an individual's ability to assemble available information and make immediate use of it. The skill for analysis includes defining the problem, searching for related information, analysing received information, selecting alternatives, evaluating each and finally selecting the one most suitable.

The planning skill must be accompanied by planning habit, or the love for planning. The plan has to be written down or stored in the computer, in the form of a formal plan. Informal planning is no planning at all. In other words, planning is an art which has to be self cultivated and only when one masters the art of planning will he be a successful entrepreneur.

3.5 Decision making and problem solving

The role of an entrepreneur as a decision maker was first assigned by Arther H. Cole. He determines the objective of the enterprise. In that sense he is the primary decision maker as regards what the firm wishes to achieve and how it would go about doing so. The entrepreneur subsequently takes decisions about the progress and development of the organisation. The decisions about securing the required finances, the kind and standard of technical equipments to be obtained by the firm has to be made by the entrepreneur. The entrepreneur is responsible for choosing the most appropriate market for its products, as well as devising new products in anticipation of customers' changing preferences. The maintenance of good relations with the staff of the enterprise, a cordial relation with the suppliers of finance and credit as also with the public authorities requires strategic decisions to be taken. This is the ultimate responsibility of the entrepreneur. An entrepreneur has to take decisions irrespective of the environment the business may be operating in. There may be recession, inflation, high interest rates, lack of infrastructure, economic uncertainty, but the entrepreneur has to take decisions the consequences of which both he himself and the business will have to bear. So an entrepreneur is expected to be equipped to deal with any of these unforeseen and sometimes adverse circumstances.

CHECK YOUR PROGRESS II

1. What is a patent?
2. How are copyrights different from patents?

3.6 EXERCISES

● **Short answer type questions :**

1. What is Creativity?
2. What is the relation between innovation and invention?
3. What is the role of entrepreneur in respect of decision making and problem solving?
4. Is creativity a necessary skill of an entrepreneur?

● **Long-Answer type questions :**

1. How an innovation is protected?
2. What are the essential skills for a successful entrepreneur?
3. What are the steps required to be followed in the process of creativity?

UNIT 4 □ ORGANISATION ASSISTANCE

Structure

4.0 Objectives

4.1 Assistance to an entrepreneur

4.2 New Ventures

4.3 Industrial Park

4.3.1 Food Park in Dankuni

4.3.2 Integrated Industrial Complex in Kharagpur

4.3.3. Leather Complex in Bantala

4.3.4 Special Economic Zone

4.4 Industrial Corporations

4.4.1 Financial assistance

4.5 Small Scale Industries

4.5.1 Setting up Small Scale Industries

4.5.2 Licensing of Small Scale Undertakings

4.5.3 Registration of SSI Unit

4.5.4 Form for Permanent Registration

4.5.5 Format of IEM

4.5.6 Carry on Business (COB) licence

4.5.7 Environmental Clearance

4.5.8 Government assistance and incentives for small scale industries

4.5.9 Small Industries Development Organisation

4.5.10 National Small Industries Corporation (NSIC)

4.5.11 State level agencies

4.5.12 Government Stores Purchase scheme

4.5.13 Excise exemptions and concession

4.5.14 Exemption from income tax

- 4.5.15 Quality Standards.
- 4.5.16 Financial assistance to small scale units
- 4.5.17 Modernisation assistance to small scale units
- 4.5.18 Institutional assistance for small enterprise
- 4.5.19 The Small Industries Development Bank of India (SIDBI)
- 4.5.20 State Small Industries Development Corporation (SSIDC)
- 4.6 Export oriented units
 - 4.6.1 Incentives and facilities to exports entrepreneurs
 - 4.6.2 Export oriented zone
 - 4.6.3 Export-Import Bank of India
- 4.7 Shilpabandhu
- 4.8 Other agencies for industrial assistance
 - 4.8.1 West Bengal Electronics Development Corporation
 - 4.8.2 ICICI West Bengal Infrastructure Development Corporation
 - 4.8.3 West Bengal Industrial Infrastructure Development Corporation
 - 4.8.4 Other Corporations with focus as specific segments
 - 4.8.5 State Industrial Development Corporation (SIDC)
 - 4.8.6 State Financial Corporations (SFCs)
- 4.9 Directorate General of Supplies and Disposals (DGS & D)
 - 4.9.1 Registration with DGS & D
 - 4.9.2 Registration Categories
 - 4.9.3 Registration Procedure
 - 4.9.4 Benefits of DGS & D registration
 - 4.9.5 Information facilities centre in DGS & D
- 4.10 Khadi and Village Industries Commission (KVIC)
- 4.11 Industrial Estate
 - 4.11.1 Financing of Industrial Estates
- 4.12 Exercises

4.0 OBJECTIVES

From this unit you will learn —

- What is a new Venture?
- Different types of Industrial Parks.
- Different types of Industrial Corporations.
- About the export oriented units.
- Registration Procedures of business.

4.1 ASSISTANCE TO AN ENTREPRENEUR

Recognising the importance of the role of entrepreneurs in the industrial development of the country, the state and central governments have arranged to provide for a number of special facilities and incentives for providing assistance to entrepreneurs.

4.2 NEW VENTURE

A new venture is, according to the Scheme of Incentives to be provided by the State Government, an industrial unit in the large / medium / small scale sector having investment in fixed capital assets which is established and commissioned by the entrepreneur for the manufacture of goods in West Bengal for the first time. This business unit has to be registered with the Directorate of Industries or Directorate of Small Industries, Directorate of Tourism as the case may be. Various infrastructural and financial assistance are available to the entrepreneurs starting such new ventures.

4.3 INDUSTRIALS PARKS

Internationally, the current thinking is that a cluster of industrial units should be set up in a region so that they can share the same infrastructural facilities and consequent to the economies of scale, the cost of infrastructure per unit comes down. Industries located in these regions will get the benefit of locational advantages, being close to similar firms of the same industry. In line with this, the state government has promoted some industry specific parks for industrial development of the state. Specific industries are being promoted in specific regions to derive locational advantage. These parks located in West Bengal are as follows:

4.3.1 FOOD PARK IN DANKUNI

Food Park based on cluster concept of industries with essential infrastructure facilities like utility services, R&D Centre, Central ETP, Captive Power Source, Cold Storage, etc. First Phase is designed to comprise of 82 acres of land to accommodate units in large, medium and small scale in the areas of fruits, vegetables and marine products processing, dairy, grain processing and storage, packaging materials for the food processing industry. Project cost of first phase, is expected to be Rs.214 million. Ultimately the park will be spread over an area of 530 acres with a total expected project cost of over Rs.1000 million. Located close to raw-material sources - Hugli district and neighbouring districts which constitute the main agricultural districts in the state. Extremely well-connected to the rest of the country through National Highways (NH2 and NH6) and Calcutta (capital of the state of West Bengal, India) through 3 well-maintained road systems. They act as strategic partner for acquiring majority equity stake in the project and taking over management control of the project. Food processing companies are expected to set up units in the Food Park.

4.3.2 INTEGRATED INDUSTRIAL COMPLEX IN KHARAGPUR

An integrated industrial complex over an area of 202 hectares to house metal processing, plastic processing, textile processing and knowledge based industries has been set up. IWIN is developing this project on behalf of WBIDC. The complex based on cluster concept of industries with essential infrastructure facilities like utility services, roads, sewerage and drainage system, R&D and Technology Centre, Central Effluent Treatment Plant, Power and Water supply, and other facilities like bank, post office, guest house, etc.

The industrial complex to be set up by the private sector with all necessary support from the state government.

4.3.3 LEATHER COMPLEX IN BANTALA

The leather complex is being set up primarily to relocate the existing tanneries from Kolkata (Tiljala, Topsia and Tangra) The total area of the leather complex is 444 hectares. The cost of project would be Rs.3180 million. A 30-year Build-Operate- Transfer (BOT) agreement has been signed with the promoters. This agreement was the first of its kind in the state. It aims at development of offsite infrastructure, widening and improvement of connecting road, desiltation and improvement of SWF Channel and development of onsite infrastructure. Leather processing and finishing units are expected to set up manufacturing facilities.

4.3.4 TOY PARK IN SALT LAKE

A toy park is proposed to be set up in Salt Lake, with manufacturing space and common support units to facilitate the manufacture of toys. Along with the toy manufactures, the 2.25 acre Toy Park will also house supplier units like plush, plastic parts and mould manufactures. WBIDC is promoting the project with I-WIN as consultants.

4.3.5 SPECIAL ECONOMIC ZONE

With a strategic proximity to India's finest jewellery craftsmen, ManiKanchan has been given Special Economic Zone (SEZ) status by the Ministry of Commerce, Government of India. Exporting business units in the park will enjoy the status of off-shore units with a host of financial and non-financial benefits, simplified procedural regime and inhouse customs clearance facilities. There is a provision of a secure manufacturing space in three seven-storey Standard Design Factory with other vital services available in the centrally airconditioned Common Facilities Building with the Customs office. Office of the Development Commissioner, Design Centre with CAD/CAM facilities, Hallmarking centre. Specialised courier.etc.

4.4 INDUSTRIAL CORPORATIONS

West Bengal Industrial Development Corporation (WBIDC) :

The WBIDC is the premier State Government Agency responsible for promotion of industrial and infrastructure investments in the State. The core competencies of the WBIDC are :

- Financing medium & large scale industries through various loan schemes ;
- Providing escort services and facilitation of investment proposals through single- window agency "Shilpa Bandhu" or State Investment Facilitation Centre (SIFC) ;
- Promotion of joint sector and assisted sector units in important industry segments;
- Developments of business, trade and industrial links with domestic as well as foreign institutions and companies;
- Conceptualisation of new projects as well as assistance to entrepreneurs towards implementation and follow-up;
- Management and operation of the State Incentive Schemes as a nodal agency of the State Government;
- E-Governance.

4.4.1 FINANCIAL ASSISTANCE

The primary functions of WBIDC is to provide financial assistance to investors for setting up new medium and large scale industries and also for expansion , diversification as well as modernisation of existing units. The loans are available in several forms.

- **Details of the various loan schemes effective from 1.4.2002**

- Long Term Loan**

Extent of loan	No Limit
Eligibility	The Project Cost should not exceed Rs. 10 crore
Rate of interest	13.5%
Moratorium	Upto 18 months
Repayment period	Upto 7 years.

- **Equipment Finance/Refinance Scheme(ERS/EFS)**

According to this scheme (of IDBI/SIDBI), the loan can be upto 77.5% of the cost of Capital Goods/ Equipment(other than second hand) to be acquired .

Extent of loan	Rs.5 crore
Moratorium	Not more than 9 months.
Repayment period	upto 5 years
Rate of interest	13% quarterly

WBIDC also disburses Short Term upto Rs.40 lakhs to it's assisted units provided their assets are mortgaged to the Corporation.

- **Bill Discounting**

WBIDC offers a Bill Discounting facilities (also known as Buyer's Bill), to entrepreneurs. Salient features are given below:

Maximum amount disbursed per cheque	Rs 15 lakhs
Tenure	180 days
Rate of interest	17%

- **Bridge Loans**

WBIDC offers Bridge Loans upto 75% of the admitted claims of State Government Incentives as per the terms given below:

Against Admitted Claims	upto 75%
Repayment period	15 months
Rate of interest	13% quarterly

- **Participation in equity**

WBIDC participates in equity by contributing a reasonable amount in the equity shares depending on the merit of the individual projects.

- **Marketing loan**

WBIDC also operates a Marketing Loan (under the SIDBI scheme)

- The amount of loan would be need based.
- The security : Exclusive charge over assets acquired out of the loan First/ Second charge on the existing fixed assets and collateral security as may be deemed necessary.
- The Repayment of Principal may vary from 5-8 years with a moratorium of upto 12 months.

- **Rebate for timely payments**

Besides the above schemes, various special rebates ranging from 0.25% to 1.00% are available to the borrowers in respect of Term Loan and EFS also for industry specific units who make timely payment of instalments & interest & consistently maintain default-free accounts.

CHECK YOUR PROGRESS I

1. If you were to set up an electronic toy making unit, how would you go about your plan?
2. What benefits will an entrepreneur gain by setting shop in ETZ
3. What is a product loan?

4.5 SMALL SCALE INDUSTRIES

An industrial undertaking shall be deemed to be a small scale industrial undertaking if the aggregate value of the machinery and plant (other than tools, jigs, dies and moulds) installed does not exceed Rs. One Crores, as on 30.9.2000. In this connection the value of any machinery or plant shall be considered to be

1. in the case of any machinery or plant owned by the assessee the actual cost thereof to the assessee; and
2. in the case of any machinery or plant hired by the assessee, the actual cost thereof as in the case of the owner of such machinery or plant.

4.5.1 SETTING UP SMALL SCALE INDUSTRIES

The Industries (Development and Regulation) Act, 1953 regulates the establish-

ment of industrial units by licensing. The license is a permission to manufacture the products. In a regulated economy the Central Government decide the products to be manufactured and their quantity. In a liberalized economy the market forces are allowed to decide the products to be produced and the quantity, but the Government continues to regulate those industrial unit which are of strategic importance from the point of view of defence of the country as also environmental protection.

4.5.2 LICENSING OF SMALL SCALE UNDERTAKINGS

Section 11 of the IDR Act provides that no industrial undertaking shall be established without a licence, and such licence shall contain conditions as to location of the undertaking and the minimum standards in respect of size to be produced therein, as the Central Government may deem fit to import in accordance with the Rules, if any, made under section 30. Industrial licence would be required for -

1. establishment of a new undertaking;
2. substantial expansion;
3. production of a new product,
4. changing the location of an industrial undertaking.

The small scale industries may manufacture those items which are included in Schedule III, which are exclusively reserved for such sector.

4.5.3 REGISTRATION OF SSI UNIT

They may get themselves registered with the Directorate of Industries of the concerned State Government/Union Territory. District Industrial Centres are functioning in the districts under the control of the Directorate of Industries. The small scale industries may register themselves with the District Industrial Centres.

Small scale industrial undertaking shall make an application in the PRESCRIBED FORM (contained in the next pages). Provisional registration is given for a period of five years. The provisional registration will lapse automatically at the end of five years or on the commencement of production whichever is earlier. Permanent registration is given on compliance with the conditions prescribed. The application for permanent registration shall be accompanied by an affidavit.

In order that an industrial undertaking is a small scale industrial undertaking and is exempted from the licensing provisions of the IDR Act, the following criteria are required to be satisfied :

1. the undertaking is a factory, manufacturing schedule item having less than

- 50 workers or 100 workers, where the factory is run with the aid of power and without the aid of power respectively does not require a licence.
2. the product manufactured is a non-schedule item. License is required for only a schedule item;
 3. the dproduct falls under the reserved category;
 4. the investment in plant and machinery is subject to the limits prescribed (Rs. 1 crore as on 1.4.2000);
 5. the small scale undertaking is not owned or controlled by any other industrial undertaking. Investment by other undertakings in equity beyond 24% would denude the characteristic of small scale unit.

Entrepreneurs intending to avail of this facility are required to submit their industrial licence application to the Secretariat for Industrial Assistance (SIA) Department of Industrial Development, Udyog Bhawan, New Delhi, accompanied by a Demand Draft for Rs. 2,500 drawn in the name of Pay & Accounts Officer, Department of Industrial Development.

● Industrial Entrepreneurs Memorandum (IEM)

Existing small scale or ancillary industrial undertakings which are engaged in the manufacture of items exempted from compulsory industrial licencing or items not reserved for small scale industries on crossing the investment limit prescribed for them are not required to obtain a COB licence. If the equity holding from another company (including foreign equity) exceeds 24%, even if the investment in plant and machinery in the unit does not exceed Rs. 10 million, the unit loses its small scale status. An Industrial Entrepreneurs Memorandum (IEM) is required to be filled in such a case for de-licensed industries and an industrial licence is to be obtained in the case of items of manufacture covered under compulsory licensing. They are required to file an industrial entrepreneurs Memorandum in the prescribed form and obtain an acknowledgement. In such cases, the location of the undertaking is subject to local zoning and land use laws and regulations. Department of Industrial Development Circular No. 10/43/91 LP, dated 12th August, 1992.

The IEM should be submitted to Entrepreneurial Assistance Unit (EAU), Secretariat for Industrial Assistance (SIA), Department of Industrial Policy & Promotion, Ministry of Industry, New Delhi. A computer acknowledgement containing the SIA registration number will be issued. No further approval from SIA is required.

An IEM would be cancelled/deleted from the SIA records if on scrutiny it is found that the proposal contained in the IEM is licensable.

4.5.4 FORM FOR PERMANENT REGISTRATION

Government of
Directorate of Industries
Application form for provisional registration as
Small Scale Industries
(To be Filled in Duplicate)

INSTRUCTIONS

1. Write \ type in block (Capital) letters.
 2. Fill up whichever is applicable.
 3. Use English alphabets/Arabic numbers while filling up blocks (to help computerisation). Leave one blank after each word.
 4. While filling the form, use the following procedure.
- i) Name of the unit e.g. KAMAL ENTERPRISES/G. K. ENTERPRISES

K	A	M	A	L		E	N	T	E	R	P	R	I	S	E	S				
G		K				E	N	T	E	R	P	R	I	S	E	S				
ii) Pin Code : e.g. 110041															1	1	0	0	4	1
iii) Date: e.g. 23 rd June 1959															2	3	0	6	5	9
iv) Quantity (kg) e.g. 90 kg.															0	0	0	0	9	0
v) Amount (Rs. in thousands) e.g. Rs. 5000/-																0	0	0	0	5

- vi) Fill up appropriate codes in the blocks wherever applicable

Example 1 : Yes-1, No-2, NA-3							3
-------------------------------	--	--	--	--	--	--	---

if NA fill up-3

Example 2 : Category : SSI-1, Anc-2,
Tiny-3, SSSBE-4,

EOU-5							3
-------	--	--	--	--	--	--	---

If Tiny fill up-3

5. Block/boxes marked (*) are to be filled by office.
6. Applicant should sign all copies.

Abbreviations used :

SSI : Small Scale Industries, ANC : Ancillary Industrial Undertaking, SSSBE : Small Scale Service and Business Enterprise, TINY : Tiny Enterprise, EOU : Export Oriented Unit, NA : Not Applicable.

1. Name of the Unit/Applicant.

[illegible][illegible]

4. Location :

[illegible][illegible]

44

Form for Permanent Registration

Manufacturing/Assembly (01)	<div style="border: 1px solid black; width: 20px; height: 20px; display: inline-block;"></div>	<div style="border: 1px solid black; width: 20px; height: 20px; display: inline-block;"></div>
-----------------------------	--	--

Processing (02)

Job work (04)

Repairing/Servicing (08)

Note : For any combination of activities, and the respective code to get the required code.

7. Main items of manufacture/activities.

i)	Name	
	Code	
ii)	Name	
	Code	
iii)	Name	
	Code	
iv)	Name	
	Code	
v)	Name	
	Code	

8. Investment in Fixed Assets (Rs. in '000)

i)	Land	
ii)	Building	
iii)	Plant & Machinery	

Form for Permanent Registration

[illegible]

9. Investment in Plant & Machinery

[illegible]

Note : Should exclude items whose value is not taken into account while computing the investment. Please enclose project profile in case value of investment in Plant and Machinery exceeds Rs. 40 lacs.

[illegible]

11. Employment

[illegible]

(estimated

[illegible]

Signature of Applicant (Authorised Person)

Name of proprietor/partner/managing director

FOR OFFICE USE ONLY

Application No							NIC Code					
Block						District				State		

Form for Permanent Registration

Code						Code						Code				
Location of Unit																

(Conforming-1, Non-Conforming-2)

Whether the items of manufacture/activity require an industrial licence.

Yes-1, No-2	
-------------	--

(No industrial licence is required for items listed in Schedule II of the licensing notification dated 25.7.1991 if the unit employs less than 50/100 workers with/without power)

4.5.5 FORMAT OF IEM

1. This format is to be used for submission to the Central Government in the Secretariat for Industrial Assistance, for the purpose of record, a memorandum under the Industries (Development and Regulation) Act, 1951 of the Department of Industrial Policy and Promotion, Ministry of Industry, Government of India, as amended from time to time.
 2. The application should be submitted to the Secretariat for Industrial Assistance (SIA), department of Industrial Policy and Promotion, Ministry of Industry, Udyog Bhavan, New Delhi 110011 in 6 (six) copies along with a crossed demand draft for Rs. 1,000 drawn in favour of the "Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhavan, New Delhi.
 3. Entrepreneurs may go through the "Note of Guidance for Entrepreneurs" carefully before filling up the details in the IEM. The note contains relevant extracts of licensing provisions, a note on NIC Classification System and guidelines for filling up the Memorandum.
-

FOR OFFICIAL USE ONLY

Memorandum No.

Employment

Existing

Proposed

Non-supervisory

Total

Expected Date of commencement of Commercial Production Date Month Year

DECLARATIONS

I/We hereby certify that this memorandum conforms to all the conditions stipulated in the Notification No. 447(E), dated 25th July, 1991, and amendments therein regarding exemption from Industrial Approvals.

I/We hereby further declare that the above statements are true and correct to the best of our knowledge and belief.

Signature of promoter(s)

(Name in block letters)

(Designation of promoter)

Place:

Date Month Year

SPECIMEN

SUPPLEMENTARY SHEET REFERRED TO IN COLUMN VI

Item(s) of Manufacture

(1) Item of manufacture:

(a) Item Code (NIC No.)

(b) Item description

(c) Proposed annual capacity

(d) Existing capacity (if applicable)

(e) Total capacity after expansion

(f) Unit of capacity

(2) By-product/Co-products:

NICNo.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

NIC No.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

NICNo.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

Whether the item(s) of manufacture/by-product/co-product is covered in Schedule I (Reserved for public sector). Schedule II (under compulsory licensing) or Schedule III (Whether it is reserved for manufacture in small scale sector) of Notification No. 447(E), dated 25th July, 1991, as amended from time to time

Schedule I

Yes

No

Schedule II

Yes

No

Schedule II

Yes

No

Signature of promoter(s)

(Name in block letters)

(Designation of promoter)

Place

Date Month Year

PART B

To be submitted at the time of commencement of commercial production to the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Udyog Bhawan, New Delhi 110011, in six (6) copies

I. Reference No.:

II. Actual date of commencement

III. Actual investment:

	Existing (Amount in Rupees)	Proposed (Amount in Rupees)
--	--------------------------------	--------------------------------

(a) Land (for rented premises capitalized value of the same to be indicated)

(b) Building

(c) Plant and Machinery

(i) Indigenous

(ii) Imported

(a) GIF value

(b) Landed cost

(iii) Total [(i)+(ii)9BO]

IV. Item(s) of Manufacture : In case of more than one item supplementary sheets may be attached.

* NIC No.

* ITC Code

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

V. Employment:

Proposed

Actual

(a) Supervisory

(b) Non-Supervisor)

Signature of promoter(s)

(Name in block letters)

(Designation of Promoters)

Place

Date

Month

Year

* To be filled wherever applicable

(2) Please indicate whether the proposed location is -

(a) Within 25 kms. from the periphery of a city having population above one million according to 1991 Census ?

Yes

No

(b) Located in an industrial area/industrial estate designated/set up prior to 25 July, 1991?

Yes

No

(3) (a) Is the IEM being filed for electronics, computer software or printing industry?

Yes

No

(b) Is the IEM being filed by a small unit graduating to medium scale for the unit located within 25 kms. from periphery of a city with more than one million population?

Yes

No

(c) Is the IEM being filed by existing unit for new articles without additional investment?

Yes

No

VI. Item(s) of Manufacture :

In case of more than one item supplementary sheets may be used. (Specimen of supplementary sheet is enclosed). In case of proposals for drugs and pharmaceuticals, applicants should also fill up the Annexure.

(1) Item of manufacture* :

- (a) Nation : Industrial classification of all Economic Activity (NIC), 1987
NIC No.
- (b) Item description
- (c) Proposed annual capacity
- (d) Existing capacity (if applicable)
- (e) Total capacity after expansion
- (f) Unit of capacity

*Not to be filled if no manufacturing is envisaged.

(2) Description of activities to be undertaken (if, no manufacturing envisaged) :

(3) By-product/Co-products:

NIC No.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

NICNo.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

NICNo.

Item description

Proposed annual capacity

Existing capacity (if applicable)

Total capacity after expansion

Unit of capacity

(4) Raw material (including components, intermediates and packing materials) per annum

Item(s)	Quantity	Unit	Value
---------	----------	------	-------

VII. Whether the Item(s) of Manufacture/By-Product/Co-product is covered in Schedule I (Reserved for public sector). Schedule II (Under compulsory licensing) or Schedule III (Reserved for manufacture in small scale sector) of Notification No. 477(E), dated 25 July, 1991, as amended from time to time :

Schedule I	Schedule II	Schedule III
Yes	Yes	Yes
No	No	No

VIII. Investment:

	Existing (Amount in Rupees)	Proposed (Amount in Rupees)
--	--------------------------------	--------------------------------

(a) Lane (for rented premises capitalized value of the same to be indicated)

(b) Building

(c) Plant and Machinery

(i) Indigenous

(ii) Imported

(a) GIF value

(b) Landed cost

(iii) Total [(i)+(ii)(b)]

VIII. Financing pattern:	Existing (Amount in Rupees)	Proposed (Amount in Rupees)
--------------------------	--------------------------------	--------------------------------

(i) Resident Indian

(ii) Non-resident Indian

(iii) Foreign

Total borrowings:

(i) Public financial institution

(ii) Public borrowing

(iii) Other sources

Promoters' contribution:

(1) Whether foreign technology agreement is envisaged?
(Please tick the appropriate box)

Yes

No

(2) Whether foreign investment is envisaged? (Please tick the appropriate box)

Yes

No

4.5.6 CARRY ON BUSINESS (COB) LICENCE

The existing small scale and ancillary industrial undertakings which are engaged in the manufacturing a reserved or licensable item on crossing the prescribed investment shall apply for Carry on Business Licence. A small scale unit manufacturing small scale reserved items on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth needs to apply for and obtain a carry on business (COB) licence. No export obligation is fixed on the capacity for which the COB licence is granted. Also if exemption from industrial licensing granted for any item is withdrawn the industrial undertaking who are manufacturing such item(s) require COB licence. Such undertakings are on graduation to medium or large scale required to file an IEM in the prescribed form. No export obligation is fixed on the capacity for which COB licence is issued. However, if the unit expands its capacity for the small scale reserved items farther, it needs to apply for and obtain a separate industrial licence. The application for the grant of COB licence should be submitted to the SIA, Department of Industrial Policy and Promotion.

4.5.7 ENVIRONMENTAL CLEARANCE

In economy development shall have to be in closest possible harmony with the environment as otherwise there would be total devastation. The environmental policy of the Government, therefore, aims at integrating environmental and economic aspects in development planning, preventive aspects in pollution abatement, promotion of technological inputs for reducing industrial pollutants. The policy distinguishes between preventive and curative sides of the problem by minimizing pollution as well as achieving a reasonable level of pollution by control measures.

Any item reserved for the small scale sector worth investment of less than Rs. 10 million is also exempt from obtaining environmental clearance from the Central Government. It is possible that a chemical or a by-product recoverable through pollution control measures is reserved for the small scale sector. With a view to adopting pollution control measures. Government has decided that an application needs to be made for grant of an industrial licence for such reserved items which would be considered for approval without necessarily imposing the mandatory export obligation.

Entrepreneurs are required to obtain necessary clearance from the environment angle before setting up an industrial project. Small scale industries/units, except for 17 heavily polluting categories, are exempted from taking the prior approval of the Pollution Control Boards before starting operations. For them

acknowledgement of the application from by the Central Pollution Control Board would serve the purpose. The heavily polluting categories of industries are -

1. Fertilizer (nitrogenous/phosphatic)
2. Sugar
3. Cement
4. Fermentation and distillery
5. Aluminum
6. Petrochemicals
7. Thermal power
8. Caustic soda
9. Oil refinery
10. Tanneries
11. Copper smelter
12. Zinc smelter
13. Iron and Steel
14. Pulp and paper
15. Dye and dye intermediaries
16. Pesticides manufacturing and formulation; and
17. Basic drugs and pharmaceuticals.

Filing of an application by the small scale units would be sufficient for items with a low pollution load and there would also be no need for the industry to obtain periodic renewal consent till such time that a unit changes its process. The small scale units in 17 identified critically polluting sectors will continue to have their data scrutinized before the consent to operate is given.

The small scale units are called upon to adopt clean technologies and implementation of pollution control measures to achieve the goal of promoting sustainable development. The government has subsidized schemes of providing financial assistance to small scale units to aid implementation of pollution standard by setting up common effluent treatment plants.

4.5.8 GOVERNMENT ASSISTANCE AND INCENTIVES FOR SMALL SCALE INDUSTRIES

The small scale and village industries received attention earlier in the 1948 and 1956 Industrial policy Resolution of India. Thereafter, it received mention in all Policy Statements relating to industry. However, it was in August 1991 the

Government of India announced a package of policy measures for promoting and strengthening small, tiny and village enterprises. The primary objective of the survey is to harness this sector's full potential in industrial production, employment generation and exports. This objective is to be achieved through various programmes simultaneously with measures to free the sector from regulatory framework and procedures which hamper its growth potential. The policy seeks to shift the focus from subsidised or cheap credit to timely credit. The mechanism evolved is to ensure increased availability of risk capital, access to technology, quality promotion, marketing infrastructure and entrepreneurship promotion.

The policy permits non-SSI units to have equity participation of upto 24 per cent in small units; this is expected to facilitate ancillarisation. With the Over the Counter Exchange of India (OTCEI) becoming operational, the relatively larger small units might have access to the capital market. The introduction of the Limited Partnership Act is also expected to pave the way for supply of risk capital in small units. The government of India also proposes to bring forth a legislation for ensuring prompt payment of bills by the purchasing organisations. Another important measure is the introduction of factoring services by designated banks with the support of SIDBI for the benefit of the small scale units.

CHECK YOUR PROGRESS II

1. Which units can be called small units?
2. Why does a small unit need a C O B license (4.5.4)
3. How does a SSI register?

4.5.9 SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

At the Central Government level under the Ministry of Small Scale, Agro and Rural Industries, Small Industries Development Organization (SIDO) is a setup which formulates, co-ordinates and monitors the policies and programmes for development of small scale industries at the national level. SIDO provides information on the scope for development of various industries. This information helps the small entrepreneurs and potential investors to make selection of the product.

The SIDO has under it three wings, viz., the Small Industries service Institute (SISI), Regional Testing Centres, and Product and Process Development Centres. Each institute has technical offices, workshops and testing facilities relevant to the requirements of the small scale units. The SISI provides technical information and arranges training programmes. The SIDO offers consultancy services in the field of techno managerial, marketing, quality control, production

and conducts in plant studies, special training programmes and seminars. The SISIs in all major States of the country enlist and assist small units in obtaining sub-contracts from medium and large scale units for parts, accessories, sub-assemblies, etc., manufactured by the ancillary units. The Institute is also commissioned to give report on the working of small industries who are potentially sick or have become sick on the references made by the banks and financial institutions. The regional testing centers offer facilities to conduct testing of quality of raw materials components and end products. Quality testing is very important but small scale units generally cannot afford to install costly machines for the purposes of testing alone. SIDCO is extending this facility in a limited way by established laboratories attached to SISI. The Regional Testing Centres at Bombay, Kolkata, New Delhi and Madras, undertake thorough quality checks issuing test certificates and advising the units in improving the quality of their products.

The Policy Statement, 1991 envisioned the setting up of a Technology Development Cell (TDC) in the SIDO which would provide technology inputs to improve productivity and competitiveness of the products of the small scale sector. The TDC would co-ordinate the activities of the tool rooms Process-cum-Product Development Centres (PPDC) existing as well as to be established under SIDO and would also interest with the other industrial research and development organizations to achieve its objectives.

The Policy Statement, 1991, recognized the need to widen and deepen complementarity in production programme of large medium and small industrial sectors. Parts, components, subassemblies, etc., required by large public and private sector undertakings would be encouraged for production in techno-economically viable manner through small scale ancillary units.

The SIDO would serve as the nodal agency to support the small scale industries in export promotion. An export promotion centre would be set up SIDO to serve the small scale industries through its network of field officers farther augment export activities of this sector.

4.5.10 National Small Industries Corporation (NSIC)

The National Small Industries Corporation~vos- set up by the Government of India as a public sector sector undertaking acts as the nodal agency under the control of the Ministry of Industry now Small Scale, Agro and Rural Industries~wfaieb/has among other things three major functions :

- (i) supply of machinery on hire purchase basis;
- (ii) providing marketing facilities;
- (iii) assistance in procuring raw material.

For units promoted by entrepreneurs from weaker sections of the society, weak entrepreneurs and ex-servicemen, special concessional terms are offered by the corporation. Units established in backward areas are also eligible to get the concessional terms.

The NSIC lends machinery, both local and imported to the small scale industrial units on lease or on hire purchase basis. The machinery is transferable to the hirer on payment of the last instalment. The undertaking also assists the small sectors to market mass consumption items under common brand name. The NSIC also procures raw materials and other goods indigenously or from outside by import. Adequacy and equitable distribution of indigenous and imported of the materials would be ensured to the small scale sector. Based on capacity needed the units would be given priority in allocation of indigenous raw materials.

The corporation provides assistance in marketing products from the small industries sector within the country. It also assists export of small industries products and developing export worthiness of small enterprises. The complete package of expert assistance offered by NSIC includes testing facilities, preshipment credit facility, export incentives, buyer and seller meets, etc.

With a view to providing proper guidelines to small scale units and access to latest information relating to technology upgradation/dissemination, NSIC has set up technology dissemination centers from where interested units can obtain latest information through on-line connection network of computers.

The corporation provides faster assistance to SSIs across the table through specialized centers named Financial Service Centres at New Delhi, Mumbai, Ahmedabad, Bangalore and Goa. The services will be gradually expanded to cover the entire country. The small units can avail themselves for all facilities such as leasing, marketing, bill discounting, raw material, export assistance, etc. Under the hire purchase scheme small units will be able to get both indigenous and imported machines on easy terms. There is also provision to modernise existing plants and machinery.

The equipment leasing and modernization scheme of the corporation provides for 100% finance, single window service for indigenous as well as imported machinery and tax rebate on full year rental.

4.5.11 STATE LEVEL AGENCIES

At the State level the Directorate of Industries, State Small Industries Development Corporations and State Financial Corporations are set up. The State

Directorate of Industries provides help in procurement of land, sheds, credit, power, machinery, raw materials, etc. The small scale industrial units register themselves with the state Directorate of Industries. Registration with the State Directorates entitles the units to obtain facilities from the Central or State Organizations.

The State Financial Corporations provide finance for the Small Scale Industrial Units either directly or on refinance basis from the SIDBI, Central Industrial Finance Corporation, etc.

Technical Consultancy Organizations (TCO) are set up in each State in which financial institutions, or development agencies at the State are associated as shareholders or as members of the Board of Directors. The TCOs provide low cost but quality consultancy services to the small and medium scale entrepreneurs through various phases of the project cycle, viz., project identification, formulation and operations. The TCOs apart from extending advisory and consultancy support also undertake market surveys, prepare feasibility and project reports and other pre-investment studies, identify potential entrepreneurs, arrange for entrepreneurship development programmes (EDP) provide guidance to entrepreneurs on project formulation, prepare diagnostic studies and rehabilitation schemes for sick units, etc.

4.5.12 GOVERNMENT STORES PURCHASE SCHEME

In order to give the marketing support to small village and cottage industries the Central Government has decided that as and when the small scale sector is able to meet the governmental requirements in respect of the items that are required by the government those items are brought in Exclusive Purchase Reservation List. The Government Stores Purchase Scheme was started in 1956-57, with reservation of 16 items for exclusive purchase from small scale units. New items are added to this reserved list by SIDO. There are about 358 items reserved for exclusive purchase by the government and related governmental organizations. The Central Government, its Departments including Railways and public sector undertaking implement this decision. The State Governments also adopt this scheme making purchases for their government departments.

Some State Governments procure goods that are manufactured by small scale industrial units in preference to those that are produced by competitors in the medium or large scale sectors. So far as the standards and prices are concerned there would be no preference to small scale units and they are to participate in tender paripassu with others.

4.5.13 EXCISE EXEMPTIONS AND CONCESSIONS

The fiscal assistance offered by the government includes excise concessions to both registered and unregistered units. No person can engage in the manufacture of excisable goods except under the authority and in accordance with the terms and conditions of license issued. The manufacturers shall for this purpose take out a registration certificate. The small scale industrial units need not apply and take out a registration certificate subject to certain limits. Small scale industrial units for the purpose of excise exemption shall be a factory as defined in the Factories Act, 1948. The tiny and small scale industrial units are not required to pay any excise duty so long as the value of clearances of excisable goods including value of clearances for export does not exceed. The small scale industrial units are extended the benefit of exemptions under various notifications from payment of duty with reference to value of clearances in respect of the goods specified under such notifications. No separate accounts are to be maintained by small units for excise purposes. Private records showing datewise production, sales and bills or invoices are adequate for excise purposes.

4.5.14 EXEMPTION FROM INCOME-TAX

Section 80HHA provides that where the gross total income of an assessee includes any profits and gains derived from a small scale industrial undertaking satisfying certain conditions, there shall be allowed in computing the total income of the assessee a deduction from such profits and gains of an amount equal to 20% thereof. The exemption is available to any small scale industrial unit which fulfil all the following conditions :

1. It begins to manufacture or product articles after the 1st day of April 1990, in any rural area.
Rural area means any other than, -
 - (i) an area which is comprised within the jurisdiction of a municipality or a cantonment board and which has a population of not less than ten thousand according to the last preceding census;
 - (ii) an area within such distance not being more than 15 kms. from the local limits of any municipality or cantonment board as the Central Government may having regard to the stage of development of such area and other relevant considerations specified in this behalf by notification in the Official Gazette.
2. It is not formed by the splitting up or the reconstruction, of a business already in existence.

3. It employs ten or more workers in a manufacturing process carried on with the aid of power or employs twenty or more workers in a manufacturing process carried on without the aid of power.

● **New small scale units commencing production before 31st March, 2002**

Section 80-1B of the Income-tax Act provides that an assessee (where the gross income includes profits or gains derived from business of small scale unit) shall be eligible for deduction from such profits subject to the conditions prescribed. Small scale undertaking for this purpose means an industrial undertaking which is regarded as small scale industrial undertaking under section 11B of the Industries (Development and Regulation) Act, 1951.

The deduction available to small scale units commencing production on or before 31st March, 2002. The deductions would be available to the extent of 25% of the profits in the case of non-corporate assessee and 30% in the case of companies. In order to be eligible for deduction the small scale unit shall fulfil all the following conditions, namely

- (i) it is not formed by splitting up, or the reconstruction of a business already in existence;
- (ii) it is not formed by the transfer to a new business of machinery or plant previously used for any purpose,
- (iii) it manufactures or produces any article or things or operates one or more cold storage plant or plants in any part of India which begins to manufacture or produce an article or thing before 31st day of March, 2002.

4.3.15 QUALITY STANDARDS

The Industrial Policy, 1991, announced that a greater degree of awareness to produce goods and services conforming to national and international standards would be created among the small scale sector. Industry associations would be encouraged and supported to establish quality counselling and common testing facilities. The proposed testing centers will offer facilities mainly to the small scale units for testing quality of raw materials, components and end products. The testing centers will help the small scale units in obtaining quality certification marks for their products and promote standardization. These centers will also extend quality assurance and assistance to the promotional institutions of testing laboratories, such as Bureau of Industrial Standards, Export Inspection agency, National Productivity Council and other government and non-government organi-

zations. Through this scheme the total quality management concept shall be promoted in the small scale sector units and assisting them in acquiring ISO 9000 or BIS 14000.

There are a large number of consultancy organizations and individual consultants which are rendering services to the industry for establishing ISO 9000 Quality system. The scheme provides for reimbursement of charges for acquiring ISO 9000 certificate or its equivalent to the extent of 75% of the cost subject to the maximum of Rs. 75,000 for the next six years, ie, up to 2006. The application together with the enclosures should be sent to the Director (Technology Management Division) Office of Development Commissioner (SSI), New Delhi.

The scheme of testing centers shall be funded on tripartite basis with Central Government providing one time grant in aid to the extent of 50% of the total cost of plant and machinery and upto a maximum of Rs. 20 lakhs. Matching funds would be provided by the State Government. The Industries Association will implement the scheme and meet the balance cost of the total project cost including the working capital. All the Industries Associations including Chamber of Industries or the Industrial Co-operatives representing the small scale industries and registered under the Societies Act or the Companies Act, or any other statute would be eligible to avail the benefits under the scheme. The SIDBI has formulated schemes to finance acquiring of ISO 9000 certificate.

4.5.16 FINANCIAL ASSISTANCE TO SMALL-SCALE UNITS

Financial loans to small-scale units are granted at a concessional rate of interest. The interest charged to these units in backward areas is at the rate of 12.50% per annum. In respect of units located in non-backward areas, the interest is charged at 13.50% per annum on loans upto Rs. 25 lakh and at the rate of 14% on loans in excess of Rs. 25 lakh.

No commitment charge is levied on loans up to Rs. 5 lakh to units in the small scale sector. Commitment charge at the rate of 1% is levied on all other loans after an initial grace period of 12 months from the date of sanction. However, units located in category 'A' backward areas are totally exempted from commitment charges on these loans, and the units located in category 'B' and 'C' backward areas are eligible for 50% concession on commitment charges. The small industrial undertakings are considered favourably and allowed a debt-equity ratio extending up to 2.5. The promoter's contribution norm varies between 12.5% to 22.5%, depending on the project site and the status of the entrepreneur. Repayment schedule is fixed by primary lending institutions after taking into consideration the profitability and debt-servicing capacity of the assisted units. The maxi-

mum repayment period shall, however, not exceed 10 years from the date of sanction.

4.5.17 MODERNISATION ASSISTANCE TO SMALL SCALE UNITS

The primary objective of this scheme is to encourage industrial units overcome the backlog of modernisation and to adopt improved and latest technology and methods of production and prevent mechanical and technological obsolescence. Modernisation may include replacement or renovation of the plant and machinery or acquisition of balancing equipment for fuller and more effective utilization of installed capacity. Units to be eligible for modernisation assistance should have been operational for at least 5 years. In the case of replacement or renovation, the machinery should have been in use at the unit for a period of at least 5 years.

Proposals for modernisation assistance should establish the benefits that would accrue by way of reduction in unit cost of production, technology improvement, improved productivity, both in quality and quantity, better profitability etc. The cost acquisition of technical know-how would also be eligible. The project proposals should clearly bring out these aspects. Other things being equal, export-oriented and import-substitution schemes will be accorded higher priority.

The modernisation programmes should primarily aim at :

- upgradation of process, technology and product;
- export-orientation;
- import-substitution;
- energy-saving and financial feasibility;
- anti-pollution measures;
- conservation/substitution of scarce raw materials and other inputs.

4.5.18 INSTITUTIONAL ASSISTANCE FOR SMALL ENTERPRISES

- (a) National Small Industries Corporation (NSIC), Small Industries Development Organization (SIDO), Khadi and Village Industries Commission (KVIC), Handloom Board, Silk Board, Commodity Boards etc., have schemes to help small units in marketing their products. Some of them also help in promoting exports of goods manufactured by small units/entrepreneurs.
- (b) SIDO is one of the important agencies that help small units in marketing their products through consultancy, testing and marketing facilities. The SIDO functions as a model agency for formulating, coordinating and monitoring policies and programmes for promotion and development of small-scale industries in the country.

- (c) SIDO also promotes ancillary units to public sector enterprises. Besides, many large industrial houses actively pursue the policy of promoting ancillary units for their purchases of stores. Small units can take advantage of this facility and secure a regular market for their products.
- (d) District industries Centres (DICs) provide marketing and other assistance to small units under a single roof.
- (e) State-level Small Industries Corporations (SICs) participate in tender programmes of government purchases and then sub-contract these tenders to small units.
- (f) The Government of India has established trade centers at various places which disseminate information on market potentials and conditions. These centers also organize fairs and exhibitions where small units can exhibit and sell their products.
- (g) Twenty-seven Small Industry Service Institutes (SISIs) have been set up by SIDO at various places for disseminating market information. Thirty-eight Exchange Centres have also been set up within some SISIs to help units in securing sub-contract jobs.
- (h) The small-scale industrial sector raises term credit and working capital required by it from commercial banks, co-operative banks and State financial corporations.
- (i) The SIDO has already setup 31 branch Small Industries Service Institutes, 4 Regional Testing Centres, 3 Process-cum-Product Development Centres and 20 Field Testing Stations to provide a comprehensive range of facilities to small- scale units.
- (j) The specialized institutes like Central Institute of Tool Design, Hyderabad, Central Tool Room and Training Centres at Ludhiana and Kolkata, Central Institute of Hand Tools, Jalandhar, Institute of Design of Electrical Measuring Instruments (DEMI), Mumbai, Integrated Trading Centre, Nilokheri, National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi conduct specialized courses/ programmes/job-oriented training programmes for the benefit of small-scale industries.

Although such development corporations like the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India Ltd. (ICICI), and the Industrial

Reconstruction Bank of India (IRBI), Small Industrial Development Bank (SIDBI), State Industrial Development Corporations (SIDCs) and State Financial Corporations are basically constituted to provide industrial finance, particularly to medium and large units, their role in assistance is by no means less important. These institutions, together with the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and the Unit Trust of India (UTI), play a significant role in the rapid growth of small-scale industry. The emergence of small-scale units on a sizeable scale in the last decade has given a real impetus to the industrialization of underdeveloped areas.

Among the term-lending institutions, financial assistance to small-scale industries is mainly provided by SFCs, SSIDCs, SIDCs/SIICs and by the IDBI under its refinance of industrial loans and bills rediscounting schemes. Assistance sanctioned and disbursed by these institutions to projects ventured by entrepreneurs are discussed further.

The network of commercial banks, co-operative banks and regional rural banks, SFCs, state industries development corporations (SIDCO) and National Small Industries Corporation (NSIC) provide the framework for financial assistance to small-scale and medium-scale industries. The Industrial Development Bank of India (IDBI) provides funds to commercial banks and SFCs through its scheme of refinance of industrial loans and rediscounting of machinery bills. The commercial banks are the main source of short-term loans/advances while SFCs provide long-term loan advances to entrepreneurs. A National Bank for Agriculture and Rural Development (NABARD) has been set up for the supply of credit to entrepreneurs in Agriculture and for Small Village and Cottage Industry sector in rural areas.

State Industrial Development Corporation (SIDCs) were set up to act as catalytic agents in the industrialisation of states. The SIDCs are established as wholly-owned undertakings of the State Governments under the Companies Act, 1956 or as autonomous corporations under specific State Acts. In addition to providing term assistance to industrial projects by way of loans, underwriting and guarantees, the activities of SIDCs also covered promotional functions such as formulation of project ideas through industrial potential surveys, preparation of feasibility reports and selection and training of potential entrepreneurs. Further, activities of SIDCs extended to setting up of industrial project in the medium and large sectors either in the joint sector, i.e., in partnership with private entrepreneurs or as wholly owned subsidiaries, administering incentive schemes of Central/State Governments and providing risk capital to new generation entrepreneurs.

Designed to assist in the development of small and medium industries SFCs

constitute an integral part of the national institutional network engaged in extending long-term finance to industrial sectors. SFCs have been playing an effective role for more than three decades in the rapid growth of small and medium scale units and through them have contributed significantly in creating employment opportunities and in achieving wider regional dispersal or industrial development.

4.5.19 THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long-standing demand from the small scale sector as an apex-level national institution for promotion, financing and development of industries in the small scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) exclusively for refinancing, bills rediscounting and equity support to the small scale sector.

Stepping up of flow of credit to the units in the small scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focusing on new target groups and activities. These are targeted at addressing some of the major problems of small units in areas such as marketing, infrastructure development, delayed realization of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalized based on an ongoing review process. The procedures have been simplified with gradual decentralization and progressive delegation of powers aimed at higher levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payments, two factoring companies, viz., SBI Factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd. have been established with SIDBI as a partner with 20% shareholding, SIDBI has enlarged the list of institutions eligible for refinance in order to widen its reach. It enrolled itself as an institutional member of Over The Counter Exchange of India (OTCEI). This facilitates small units to access capital market through the route of OTCEI in raising resources in a cost-effective manner. SIDBI has also been granted the status of Category I Merchant Banker by Securities and Exchange Board of India. SIDBI extends resource support to Non-Banking

Finance Companies by way of lines of credit against their assistance to units in the small scale sector by way of leasing, hire-purchase and bought-out deals.

4.5.20 STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDCS)

The State Small Industries Development Corporations (SSIDCs) established under the Companies act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the State/Union Territories under their jurisdiction. SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of the small sector. As at present, 18 SSIDCs are in operation.

Some of the important activities undertaken by SSIDCs includes :

- (i) procurement and distribution of scarce raw materials,
- (ii) supply of machinery on hire-purchase basis,
- (iii) providing assistance for marketing of the products of small scale units,
- (iv) maintenance,
- (v) extending seed capital assistance on behalf of the State Governments, and
- (vi) providing management assistance to production units.

A change in the role of SSIDCs has been promoted by the new Industrial Policy. SSIDCs are gearing up to change themselves from raw material distributors to organisations that will take care of various aspects of small industry development, especially marketing. SSIDCs would, thus, help the tiny and small industries increase testing facilities and provision of a mechanism to allow corporation of the latest technology in the smalls sector. SSIDCs are also planning to set-up centers for display of information dissemination on small sector products, and for providing small office spaces for small units in need.

CHECK YOUR PROGRESS III

1. What do you mean by the Govt. Stores purchase scheme? (Ref. 4.5.12)
2. What role does NSIC play in helping SSI units? (4.5.10)
3. In terms of tax rebate, what benefits do SSI units get? (4.5.14)

4.6 EXPORT ORIENTED UNITS (EOU)

All undertakings other than small scale industrial undertakings engaged in the manufacture of items reserved for exclusive manufacture in the small scale sector will exempt from the operation of section 29B of the Industries

(Development and Regulation) Act, subject to the condition that they export minimum of 50% of the new or additional production and necessary amendments to that effect are made in the letter of inter or industrial licence granted to them. The Government has decided to exempt EOUs from obtaining industrial licence, if they manufacture items reserved for small scale units. The exemption would be also available even if they had a foreign equity component of over 24%.

4.6.1 INCENTIVES AND FACILITIES TO EXPORTER ENTREPRENEURS

a) Duty Drawback

For a product exported from India, the manufacturer would have paid duties as under:

- (i) Import duties on raw materials and components imported and
- (ii) Excise duty on the items manufactured in India.

The Customs and Central Excise Duty Drawback/Rules, 1971 provide for refund of such duties to the exporter on the export being completed.

Duty drawback is allowed only in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid. There are two types of rates of drawback :

- (i) all-industry rate and
- (ii) brand rate.

All-industry rate is applied to all exporters alike.

b) Duty Exemption Scheme

The scheme enables the exporter to import materials without payment of customs duty. The licence issued under this scheme is known as 'Advance Licence'. The items allowed to be imported under these licences are such as are to be used in the manufacture of goods to be exported from India. The advance licences are issued to manufacturer-exporters subject to actual user condition. Generally, the scheme is applicable only to those export products in which there is a minimum value addition of 33%. The licence will bear a suitable export obligation.

c) Excise Rebate

Finished goods which are subject to excise duty for home consumption are exempt from the duty when they are exported. The scheme is also applicable where exported goods contain excisable goods in their manufacture. The exporter can avail, of this facility in either of the following methods, where finished goods are excisable:

- (i) **Export under bond :** Under this method, the exporter has to execute a bond in favour of Central Excise Authorities. The amount of the bond will be equal to the duty on the estimated maximum outstanding of goods leaving the factory without paying the duty and pending acceptance of their proof of export by excise authorities. No excise need be paid by the exporter.
- (ii) **Refund of duty :** If the duty is already paid, after export is made, the exporter should make a claim with the Central Excise authorities. After verification of the claim, the excise authorities will arrange for the refund of the central excise.

Where the excisable materials have been used in the manufacture, similar to the above arrangement, the exporter can avail of the facility of manufacturing under bond or he can claim refund after the duty is paid.

d) Marketing development assistance

The Government of India has instituted a Marketing Development Fund for providing grants-in-aid for the development of markets for Indian products abroad, for compensatory support for export commodities and for other export promotion efforts. The fund gets its resources from the allocation of General Budget. The fund is administered by a committee consisting of the Secretaries of the Departments of Economic Affairs and Expenditure and Commerce. Various schemes (i.e. export promotion activities) falling under the grants-in-aid are processed by different sub-committees. Assistance under MDF is available to organizations like Export Promotion Councils, Commodity Boards, India Trade Promotion Organization, etc., and individual exporters approved by such organizations.

e) Supply of Raw Materials

Units engaged in exports are given priority in the allotment of scarce raw materials such as steel. In certain cases, the raw materials are arranged to be supplied at international prices, much below the internal prices.

4.6.2 EXPORT PROCESSING ZONE

Units undertaking to export their entire production of goods may be set up under the Export Oriented Units Scheme. Such units may be engaged in manufacture, production of software, horticulture, agriculture, aquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits. Free Trade Zone or Export Processing Zone is an industrial estate, cordoned off from domestic tariff area, where trade barriers applicable to

the rest of the economy do not apply and where export oriented units can operate free of import duties or quantitative restrictions and are given other advantages including tax exemptions. Seven free trade zones have been set up in India at Santa Cruz (Mumbai), Kandia, Madras, Cochin, Noida, Falta (Kolkata), and Visakhapatnam. Units in the free trade zone and export oriented units (outside the zone) are similarly placed with regard to conditions and benefits bestowed on them.

◆ **Facilities for Units in the Export Processing Zone**

- Developed plots/ready-buildings to suit project requirements.
- Single-point clearance of new projects within 40-65 days.
- Automatic approvals of proposals by the Development Commissioner on certain conditions.
- No licence required for import of capital goods, raw materials, consumables, spares, etc.
- Duty free import of capital goods and equipments from preferred sources.
- Second-hand capital goods allowed to be imported.
- Sourcing of capital goods from domestic manufacturing/leasing companies allowed.
- Exemption from Central Excise Duty and other levies on products manufactured within the zone.
- Complete exemption from income Tax on profits for a period of five years.
- Foreign equity participation upto 100% permissible.
- Remittance of profits and dividends by foreign investors/NRIs allowed fully after payment of taxes.
- Upto 25% production and 5% rejects can be sold in Domestic Market on payment of appropriate duties.
- Re-export of unused imported goods allowed, subject to certain conditions.
- Imported machinery becoming obsolete allowed to be disposed of, subject to payment of custom duty on depreciated value.
- Sub-contracting part of Job Work to units in the Domestic Market may be allowed.
- Concessional finance available for investment and working capital.
- Assured power supply, preferential power connection.
- Supplied from Domestic Market to the units in the Zone, treated as Deemed Export.
- Export finance Banks or special concessional rate of interest.

- Green card to units for getting facilities like telephone, telex, cement, steel, etc. on priority basis.
- Containers loaded by units in SEPZ not to be inspected at other points, so long the seals are intact.
- Private bonded warehouses permissible for stock and sale of duty-free materials, components, etc. to SEPZ units.
- **Other Facilities/Provision being made available in SEPZ**
 - Security as per norms laid down by the customs for SEPZ.
 - Paved internal roads, street lights, water supply, etc.
 - Container space on rental basis.
 - Customs clearance centre within the Diamond Industrial Park.
 - Railway Station, Airport and Sea Port.
 - Office premises available in the International Trade Centre of the park.
 - Health centre, school, recreation club, theatre.
 - Hotel by an international Chain of Hotel.
 - Excellent green and clean environment.
 - Administrative support by the Promoters to users in preparing their application for units in the zone.

In order to boost exports, the Central government has established an export processing zone (EPZ) in Falta and an export promotion industrial Park (EPIP) in Durgapur.

● **Export Processing Zone in Falta**

State Highway No. I leading to Diamond Harbour is the arterial road which links the zone to Kolkata and its seaport and airport. Spread over an area of 113 hectares on the eastern bank of river Hooghly. Fully owned foreign companies as well as Indian Companies can set up business units here. External Commercial Borrowing upto 60% of Project Cost is allowed. The unit should be 100% export oriented; upto 50% of the FOB value of exports can be sold in the domestic tariff area (DTA), provided the NFEP as stated in the EXIM Policy is achieved. Value addition in terms of export earning should be as per the EXIM Policy. Process of manufacture should be pollution free. Trading/Service activities allowed. Industrial Sheds/Developed plots of land Standard Design Factory building (SDF) built as per international specifications to house sophisticated industries are available. Metalled roads, 132KV sub station within the zone and 24 hours water supply through a well-knit distribution system are available. An independent container-handling jetty is operational for the smooth movement of 20 feet and

40 feet containers. Underground modern drainage system, ware-housing facilities, an independent electronic telephone exchange with UHF link are important features of this zone. Social Infrastructure includes Housing facility, medical services, market place. Post Office, Police Station and Banks. A fully staffed customs wing stationed in the zone has simplified procedures for speedy clearance of goods, both for import and export. DC, FEPZ, act as a single point nodal agency.

Business units located here are offered duty free import of machinery and raw materials, exemption of excise duty for DTA purchase, reimbursement of Central Sales tax, exemption from payment of Sales Tax on purchase of inputs, reprocessing and reconditioning facilities, trading and warehousing, simplified customs clearances and concessional lease rent for developed plots and built space.

These business units also get the advantage of clubbing of export (f.o.b.) with that of parent companies in DTA for export house, trading house, star trading house, super star trading house status, exemption from central excise duty for DTA purchase, reimbursement of central sales tax; exemption from payment of Sales Tax on purchase of inputs, waiver of electricity duty and performance linked concession in lease rent upto 5 years, subsidy on the purchase of captive generating set, subsidy on purchase of transformer and drawing of power line and exemption from payment of sales tax for purchase of raw materials within the State.

● **Export Processing Industrial park in Durgapur**

This is an Export Promotion Industrial park (EPIP) in Durgapur, promoted jointly by Ministry of Commerce, Government of India and Commerce & Industries Department, Govt. of West Bengal. Spread over an area of 148 acres, the project is being executed by Asansol Durgapur Development Authority (ADDA). The project provides for creation of industrial and social infrastructure of high standards, primarily for export oriented units. The park is flanked in the north by NH2 and in the south by the main Eastern Railway line. The total cost of the project is Rs.220 million. Entrepreneurs interested in setting up EOUs with minimum 33% export commitment eligible. EPIP is made up of independent industrial plots with world class infrastructure that can support all kinds of infrastructure. The Park is equipped with abundant and uninterrupted power supply of 11 KV and 33 KV, 1 mgd water supply and state-of-art telecommunication facilities. Other amenities like underground drainage, basic civic and emergency services, bank and postal services are also available. Units to set up shop in the EPIP on developed land with ready built up infrastructure.

4.6.3 EXPORT-IMPORT BANK OF INDIA

The Export Import Bank of India (Exim Bank) was set up as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institutions engaged in financing export and import of goods and services, finances export-oriented units and undertakes promotional activities necessary for international trade. It has a menu of 23 major programmes to meet the needs of different customer groups viz. Indian exporters, overseas entities and commercial banks. Exporters can avail of pre-shipment credit, supplier's credit, overseas investment finance, export product development loans, loans for export product development loans, loans for export marketing, bulk import finance and investment vendors development finance. Foreign Government and agencies are offered buyers' credit and lines of credit. To commercial banks in India, Exim Bank offers export bills rediscounting facility, reliance of suppliers' credit and refinance of term loans in respect of exports-oriented units. It also participates in guarantees issued by commercial banks on behalf of India project exporters.

Besides providing finance, EXIM Bank promotes exports through advisory and information services to exporters on procurement practices and bidding procedures of multilateral institutions, country risk analysis, merchant banking and marketing focused on catalysing exports of non-traditional products to developed countries.

CHECK YOUR PROGRESS IV

1. Which EOU are exempt from setting industrial license?
2. What facilities will a SSI enjoy if it sets up in EPZ?

4.7 SHILPABANDHU

Shilpabandhu or the State Investment Facilitation Centre (SIFC) acts as the single-window agency for setting up industries . The assistance offered by SIFC is in the following areas:

- Approvals from the Secretariat for Industrial Assistance and Foreign Investment Promotional Board;
- Registration by Directorate of Industries;
- Clearance from the Pollution (control Board;
- All clearances related to power;
- Identification, allotment, mutation /conversion of land and other infrastructural facilities;

- Guidance to entrepreneurs on investment prospects in more than 200 ready projects developed by WBIDC.

Silpabandhu, 'a one stop shop unit', was set up to expedite the entire process of growth in West Bengal. Its primary job to extend any sort of assistance to entrepreneurs to help them set up medium and large scale industries. It also coordinates the functioning of different departments to arrange for all the necessary clearance and inputs for them.

The various services on offer are :

- Clearance from the Foreign Investment Promotion Board, New Delhi.
- Clearance from the Secretariat for Industrial Assistance, New Delhi
- Clearance from Pollution Control Board.
- All Clearance related to power.
- All Clearance related to telecommunications.
- Fiscal benefits including reduction in sales taxes.
- Identification and allotment of land and infrastructural facilities.
- Assistance in mutation and conversion of land.

The agency is manned by senior officials from concerned departments like the Directorate of Industries, the Directorate of Commercial Taxes, the State Pollution Control Board, the Land Revenue Department, Calcutta Telephones, West Bengal Telecom, Food Processing Department.

4.8 OTHER AGENCIES FOR INDUSTRIAL ASSISTANCE

4.8.1 WEST BENGAL ELECTRONICS DEVELOPMENT CORPORATION

The WBEDC is responsible for promotion of electronics, software and other knowledge based industries construction and management of dedicated industrial estates. It contributes to Research and Development and undertakes training programmes and provides escort services to new entrepreneurs

4.8.2 ICICI WEST BENGAL INFRASTRUCTURE DEVELOPMENT CORPORATION

I-WIN, a joint venture between ICICI Ltd and WBIDC, has been set up to promote orderly development of infrastructure and to encourage rapid growth of industry in the state of West Bengal.

Primary focus is on identification, development and financial structuring of

projects in the areas of roads, industrial parks and townships, urban infrastructure and renewal, ports and airports.

4.8.3 WESTBENGAL INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION

The main functions include acquisition of land, development of infrastructure facilities like roads, pathways, drainage, water supply and power in the industrial estates. WBIIDC leases out land for industries and manages the industrial estates.

4.8.4 OTHER CORPORATIONS WITH FOCUS ON SPECIFIC SEGMENTS

- West Bengal Pharmaceutical & Phytochemical Development Corporation
- West Bengal Mineral Development & Trading Corporation
- West Bengal Tea Development Corporation
- West Bengal Sugar Industries Development Corporation
- Greater Calcutta Gas Supply Corporation

All the above agencies, except for I-Win, function under the overall guidance of the Commerce and Industries Department, Government of West Bengal. The Directorate of Industries assists the Department in all technical, policy and promotion aspects.

4.8.5 STATE INDUSTRIAL DEVELOPMENT CORPORATION (SIDCS)

The State Industrial Development Corporation (SIDCs) was established under the Company Act, 1956 as wholly owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription of shares/debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. SIDCs' activities sector in collaboration with private entrepreneurs or as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of developmental services such as technical guidance, assistance in plant location and coordination with other agencies.

The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme.

Under the scheme, equity, type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

The major functions of these Corporations include :

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance;
- Grant of financial assistance to industrial units by way of loans, guarantees and of land, lease finance by some Corporations;
- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrusted by the respective State/Union Territory, there is considerable diversity in activities among the different SIDCs.

4.8.6 STATE FINANCIAL CORPORATIONS (SFCS)

State Financial Corporation (SFCs), operating at the State-level, form an integral part of the development financing system in the country. They function with the objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, catalyzing higher investment, generating greater employment opportunities and widening the ownership base of industry.

Industrial concerns eligible for financial accommodation under the State Financial Corporation Act, 1951 are those which are engaged in the following activities :

- (a) Manufacture of goods;
- (b) Preservation of goods;
- (c) Processing of goods;
- (d) Mining;
- (e) Generation of distribution of electricity or any other form of power;
- (f) Hotel industry;
- (g) Transport of passenger or goods by road or by water or by air;
- (h) Maintenance, repair, testing or servicing of machinery of any description of vehicles or vessels or motor boats or, trawlers or tractors;

- (i) Assembling, repairing or packing any article with the aid of machinery or power;
- (j) The development of any contiguous area of land as an industrial estate;
- (k) Fishing or providing shore facilities for fishing or maintenance thereof;
- (l) Providing special or technical knowledge or other services for the promotion of industrial growth.

SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, social target groups like SC/ST, women, ex-servicemen, physically handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc.

Objectives and Functions

- The main function is to provide term loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- Promotion of self-employment.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial projects.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.
- To assist for the promotion or expansion of industry by the rural and urban artisans.
- To provide financial assistance for transport vehicles strictly for captive use, depending on the requirement of the projects.
- Providing seed capital assistance under the scheme of Industrial Development Bank of India.
- Providing soft-term loan to cover the equity gap to help small-scale industrial units.
- Undertaking the various promotional activities, including the organisation of entrepreneurial development programmes and seminars etc.
- Interest subsidy for self-development, self-employment of young persons, adoption of indigenous technology in small and medium sector and

encouraging quality control measures in small-scale industry is also admissible to the extent of Rs. 5 lakhs.

- To promote development institutions in the state/region which will accelerate the process of socio-economic growth.

CHECK YOUR PROGRESS V

1. What is Shilpabhdhu?
2. What are the objectives of SFCs?

4.9 DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS (DGS&D)

4.9.1 REGISTRATION WITH DGS&D

Registration with DGS&D is a process by which entrepreneurial firms can get enlisted as an approved supplier to qualify for participation in DGS&D procurement programme. DGS&D registers suppliers for specified items after verification of their technical capability, financial status and reliability as a supplier. This registration is widely taken as a benchmark by other procurement agencies in India both in the State and Central sectors. 20 Registration centres across the country deal with applications for registration on single window disposal basis.

4.9.2 REGISTRATION CATEGORIES

There are different Categories of Registration, namely:

1. **Indigenous items**
 - Indian Manufacturers/ Assemblers/Converters.
 - Authorised Agents /Distributors of registered Indian Manufacturers.
 - Stockists of certain specified indigenous stores.
2. **Imported items**
 - Foreign Manufactures with or without Indian Agents
 - Stockists of imported stores
 - Suppliers of imported stores

4.9.3 REGISTRATION PROCEDURE

Step 1 : Obtain a copy each of Guidelines for Registration and the prescribed Registration Application Forms from any of the 20 Registration Centres on nominal payment of Rs. 25/-. These documents can also be downloaded from the Website.[<http://dgsnd.nic.in/dgs6.htm>]

Step 2 : Submission of completed forms with documents and processing fee (up to Rs. 3500/-) to the appropriate registration centre. Jurisdiction of the registration centre and processing fee payable are available in Guidelines for Registration.

Step 3 : Scrutiny of application by Registration centres. Deficient documents if any will be called for.

Step 4 : Visit of Quality Assurance Officers to firm's works for verification of technical capacity/capability.

Step 5 : Issue of registration certificate/deficiency reports within 30 days of receipt of application complete in all respects.

In the event of the applicant not being found suitable for registration, a report indicating the deficiencies will be communicated to the applicant. Such deficiency report will also indicate the name of the appellate authority, who could be approached by the applicant in case the applicant does not agree with the deficiencies.

The Application form for registration with DGS&D, together with the guidelines can be obtained from the Office of Director (Quality Assurance), Kolkata / Asst. Director (Quality Assurance), Cuttak / Asst. Director (QA), Guwahati in person or by post for a sum of Rs. 151-. The application form can also be download from thi-sitee in which case the amount of Rs.25/- may be paid with the processing fee while submitting the application.

FORM

Form A	FormB	Form C (PART-1)	Form C (PART-2)	Form D	Form E
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ANNEXURE

Annex-1	Annex-2	Annex-3A	Annex-SB	Annex-4	Annex-5	Annex-6
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Registration applications are required to be submitted in duplicate in respect of each of the manufacturing works. DGS&D registers firms who are technically capable, finally sound and reliable source of supply for Government purchases under various categories. At Kolkata Directorate, registration in the categories of Indian manufactures and their authorised agents is dealt. Registration other than these categories are dealt at Registration Cell of DGS&D, New Delhi.

4.9.4 BENEFITS OF DGS&D REGISTRATION

- Registration firms are granted exemption from Earnest Money/Security Deposit.
- Advance tender notices are issued to registered firms.
- Rate Contracts for Government purchases are concluded with registered firms.
- It is held in high esteem by all Govt. Deptts /Agencies
- Award of rate contract lends respectability and image enhancement
- Marketing effort required is nominal.
- Consistent and uniform purchase policies and procedures.
- Availability of technical guidance for upgrading manufacturing processes and for building product quality.
- Uniform Quality Assurance technical lead to standardization.
- Registered suppliers are given prior intimation about tenders.
- Consider as benchmark by other procurement agencies in India both in the State and Central sectors.

For getting themselves registered with DGS&D, firms whose registered offices fall in West Bengal should apply to Director (QA), Kolkata. Similarly, firms of North East states should approach Asst. Director (QA), Guwahati. The firms located at the Orissa should apply to Asst. Director (QA), Cuttack. The certificate of registration issued by these offices is valid throughout the country for Government purchases and holds good for a period of five years from the date of its issue.

It has been the endeavour of DGS&D to procure items through the Rate Contract from Suppliers, who are well established, capable and with the required facilities for manufacture and Quality Control.

Keeping in view the feed from the actual users for items of critical nature, it has become necessary for DGS&D to specify additional qualification criteria to enable proper identification of suitable contractors at the time of conclusion of the contracts. These criteria have been developed to achieve a balance between the increased expectation of the actual users and the ability of the industry to meet these expectations, particularly for items, which are complaint prone and mass produced. The eligibility criteria have been brought up for the following items.

1. PC clothing - Suiting / Shirting
2. Cloth Cotton Drill
3. Cloth Cotton Drill disruptive

4. Shirting Angola
5. Boot Ankle Leather DMS
6. HDPE Pipes
7. Shoe Canvas Rubber Sale
8. Flannelette Role
9. Cloth Woolen Water Repellant (Drab Mixture)
10. Serge
11. Great Coat Cloth
12. Parka Men
13. Great coat short with Hood
14. Mosquito Nets
15. Personal Computers
16. Permanently Lubricated pipes(PLB)

The entrepreneur may visit the Local Quality Assurance Office for necessary information on the qualification criteria for the above items and for the items, which are likely to be added later on.

The trader may further requested-to look for the additional eligibility criteria requirements in DGS&D tenders for the above items when published and ensure compliance to the same while submitting their quotations to DGS&D.

The entrepreneurs registered with DGS&D engage in national activities in the following spheres:

1. Transportation Section

Rails (inspects every metre of indigenous Rails used by Indian Railways)
 Heavy Earth Moving Construction Equipment
 Road construction & inspection machinery
 Batteries, Tyres, Tubes

2. Drinking Water Supply Projects

All kinds of water carrying pipes like M. S. Galvanized Pipes, HDPE Pipes, UPVC Pipes, CI spun Pipes, Ductile iron Spun Pipes
 Submersible Pumps
 Hand Pumps
 Drilling Rigs & assessors
 Centrifugal Pumps

Alumina Ferric & stable bleaching powder

Water Fittings like meters, sluice valves

Air compressors

3. Ordinance Factories

Production Machine Tools

Special purpose machines for arms & ammunition

CNC precision production/inspection & testing machines

4. Para Military Forces (BSF, CRPF, ITBP, CISF, NSF, RAF)

Uniforms & Clothing

4.9.5 INFORMATION FACILITATION CENTRE IN DGS&D

The existing system of attending to the enquires of large number of visitors has been further strengthened in DGS&D by setting up of Information Facilitation Centre (IFC) in June 1997; on the advice of Department of Administrative Reforms & Public Grievances. The IFC is a customer oriented public interface system through which Indentors, Industries and public have easy access to information regarding schemes, procedures of the Department and any other information as may be required, across the table and through its display boards. The IFC is fully computerised and closely monitors the complaints with concerned Purchase Directors. A register is being maintained in the IFC for the visitors to record their remarks/suggestions. Any complaint so registered or received by IFC is brought to the knowledge of the concerned Directorate/Office for prompt action thereon. Complaints received by IFC are duly acknowledged. Besides coordinating and expediting the concerned authorities for early settlement of the grievances, the data on grievances is being transmitted to the Department of Administrative Reforms & Public Grievances every month. Reviews of the grievances are also undertaken from time to time at the highest level. Besides the above functions, IFC maintains all booklets/pamphlets published by DGS&D, priced or otherwise, for reference purpose. It also monitors the maintenance of Tender Hall, facilitates opening tenders and renders assistance to participants of tender opening programs. IFC ensures provision of adequate guidance to visitors to DGS&D.

CHECK YOUR PROGRESS VI

1. What are the benefits of registration with SGS&S?
2. What do registered suppliers of DGS&D deal in with respect to Para-military forces.

4.10 KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

The Khadi and Village Industries Commission (KVIC), established by an Act of Parliament in 1956, is engaged in the development of khadi and village industries in rural areas. It has under its purview 26 village industries besides khadi. After amendment to the KVIC Act in July 1987, the scope for coverage of activities was widened and as a consequence 70 more new village industries were identified and brought under its fold for implementation. The main objectives of the KVIC are providing employment in rural areas, skill improvement, transfer of technology, building up of strong rural community base and rural industrialization. The significant characteristics of khadi and village industries under the purview of KVIC lie in their ability to use locally available raw materials, local skills, local markets, low per capita investment, simple techniques of production, which can be easily adopted by the rural people, short gestation period and above all production of consumer goods. KVIC activities serve the poorest of the poor comprising scheduled castes, scheduled tribes, women, physically handicapped and minority communities in difficult, inaccessible hill and border areas.

4.11 INDUSTRIAL ESTATE

4.11.1 FINANCING OF INDUSTRIAL ESTATES

Financial institutions have commenced extending estimated direct assistance for financing of industrial estates. Such ventures estimated at Rs. 300 lakh are covered under the IDBI's re-finance scheme where primary lending is effected through the SFCs, SIDCs and commercial banks. Industrial estates costing beyond Rs. 300 lakh are extended direct financial assistance by the all-India financial institutions.

The main aspects considered in proposals for setting up of industrial estates are the suitability of the location, availability of power, water, raw materials, skilled and unskilled labour, transport and communication facilities, market for the products of industries to be set up in the estate and the potential for overall economic growth. Significant emphasis initially is, therefore laid on physical survey of the site and its proper designing.

CHECK YOUR PROGRESS VII

1. Khadi—main objectives.
2. Industrial estate.

4.12 EXERCISES

● **Short-answer type questions :**

1. Write a short notes on :
 - (i) WB Industrial Development Corporation.
 - (ii) Food Park in Dankuni.
 - (iii) Special Economic zone.
 - (iv) Industrial Entrepreneurs memorandum.
 - (v) Small Industrial Development Organisation.
 - (vi) Export oriented units.
2. What are the facilities given to the units of Export Processing Zone?
3. Discuss the functions of the state Investment Facilitation Centre.
4. Why is it necessary to organise assistance for a new venture?
5. What is the investment limit of plant and machinery for a unit to remain small?
6. What are the full form of
 - (a) SEZ
 - (b) IEM
 - (c) COB
 - (d) EPZ

● **Long-answer type questions :**

1. How do you start a small scale Industry?
2. What are the institutional assistance for small enterprises?
3. Briefly discuss the benefits which are enjoyed by the Directorate General of Supplies and Disposals.
4. Briefly discuss the objectives and functions of SFC.
5. Name the important Industrial Parks set up or proposed to be set up in West Bengal?
6. What are the chief functions of WBIDC?
7. What is the role of SIDO in the registration of a small unit?
8. Why is the Environment Clearance Certificate so important in today's world?
9. Discuss the role of NSIC in assisting modernisation of small units.
10. What are the main functions of SIDBI?
11. State the important activities taken up by SSIDC.
12. What are the facilities enjoyed by units set up in the EPZ?
13. What are the chief functions performed by the Export Import Bank of India?
14. What are the steps in registration of an unit with the DGS & D?

UNIT 5 □ RULES AND LEGISLATION

Structure

- 5.0 Objectives**
- 5.1 Applicability of Legislation**
- 5.2 Industries Development (Regulations) Act, 1951.**
- 5.3 Factories Act, 1948.**
- 5.4 The Industrial Employment (Standing Orders) Act, 1946**
 - 5.4.1 Suspension**
 - 5.4.2 Stoppage of work**
 - 5.4.3 Termination of employment**
- 5.5 West Bengal Shops and Establishment Act, 1963**
- 5.6 Environment (Protection) Act, 1986**
- 5.7 The sale of Goods Ac, 1950**
- 5.8 Exercises**

5.0 OBJECTIVES

From this unit you will learn —

- Applicability of legislation
- Different Acts which affect entrepreneurship.

5.1 APPLICABILITY OF LEGISLATION

In society, regulations are the governing factors ensuring steady growth, and maintain conformity with plans and policies adopted. They operate on everything - people, objects and actions. The basic objective behind the whole process of regulations is to ensure that results of operation conform as closely as possible to established standards of goods, specified procedures or instructions. Regulations may be protective or promotional. Protective regulations are in the form of various safeguards, while promotional regulations are in the nature of giving a push to

the yet to develop sections of society, that is, they are growth orientated. Government controls or regulations assume several forms namely, formal controls are usually those emanating from legislation, for example the Industries Development (Regulation) Act 1951, the Companies Act 1956, etc. These are basically the vehicles for controlling business organisations in the hands of the government. Informal controls refer to those which various business groups impose upon themselves out of custom or compulsion. The different trade associations, for example, lay down agreements and follow conventions which have important regulative implications. Direct control takes place when government fixes prices of certain products or services. On the other hand, variation of corporate income tax to influence economic activity is an indirect control measure. Promotional measures are of a positive nature and include regulations governing revival of sick units, removal of regional imbalances, etc. Regulatory measures ensure orderly development of industries with the least wastage of resources, MRTP Act, etc. over the years. Central and State governments have enacted various measures to regulate the industrial undertakings at various stages. Such regulatory enactments cover a wide field from registration of a business to pollution control. Such control also embraces all spheres of business activities, production, marketing, accounting, etc.

The important legislations covered here include:

1. Industries Development (Regulation) Act 1951
2. Factories Act 1948
3. Industrial Employment (Standing Orders) Act 1946
4. Shops and Establishments Act
5. Environment Protection Act
6. Sale of Goods Act

5.2 INDUSTRIES DEVELOPMENT (REGULATION) ACT, 1951

The IDR Act is an instrument in the hands of the Government of the control and direction of private sector industrial investment through the mechanism of the industrial licensing system, which enables it to exert pressure on the applications in a variety of ways. Conceptually, the Government ought to direct industrial investment in such product lines which would better serve the overall national interest and in such geographical areas which need it the most.

It is complicated, time-consuming and costly exercise to acquire an industrial licence. Obviously, it cannot be the intention of the Government to extend this

procedure to the small-scale sector because it would be impossible to implement. A small unit needs the recommendations of an agency to prepare an application for an industrial licence.

The agency is responsible for checking the veracity of what the applicant says in his application. The small-scale sector in this country is an important sector, for it is capable of meeting the consumer goods needs of the community. It is, therefore, only fair that the Government should keep the interests of the community uppermost in time, the small-scale sector must fulfill social and moral obligations if it desires protection against large houses, it should, on its part, safeguard the interests of millions of those who depend on it for their livelihood.

5.3 FACTORIES ACT, 1948

(i) **Definition of a Factory :** Section 2(m) of the Act defines a factory as any place wherein ten or more persons are working and in which manufacturing process is carried on with the aid of the appropriate power machinery and infrastructure. Premises in which power is not used come under the term of a factory if twenty or more persons are working in them. This definition brings a greater number of places under the purview of this Act that was the case under the Act of 1934.

(ii) **Employment of Children :** The Act fixes the maximum age of persons who can enter a factor for work at 14 years. It prohibits the employment of children up to the age of 13.

The Act further lays down that a qualified surgeon must certify that a person has completed the age of 14. Such certificates must be obtained by a factory manager and must be available for inspection by a factory inspector.

(iii) **Hours of Work for children :** The Act reduces the hours of work for children between the ages of 14-17 from 5 hours a day to 4 and 1/2 hours a day. It also prohibits children from doing night shift.

(iv) **Hours of Work for Adult Female and Male Workers :** The Act prohibits employment of women in factories between 6 P.M. to 7 A.M. It reduces ten hours of work for adult men and women workers from 54 to 48 per week and from 9 hours to 8 hours a day.

The Act also lays down that the eight hours of work will be spread over a period of not more than 10 and 1/2 hours. Further it provides that no worker shall work for more than 5 hours before he has had an interval or

rest of at least half an hour. Lastly, the act lays down that those workers who are made to work for more than 8 hours a day or 48 hours a week shall be paid for the extra hours at the rate of twice.

- (v) **Cleanliness** : The Act lays down that every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance. Accumulation of dirt and refuse shall be removed daily from the floor and the benches of work-rooms, from staircases and passages, and disposed of in a suitable manner.

The floor of every work-room in factory shall be cleaned once a week.

All inside walls, ceilings and partitions shall be white-washed at least once in fourteen months; if they are painted or varnished, they shall be repainted or revarnished once in five years.

Effective arrangements shall be in every factory for the disposal of wastes arising out of the manufacturing processes carried on therein.

- (vi) **Ventilation and temperature** : Effective and suitable provision shall be made in every factory for securing and maintaining in every work-room adequate ventilation by the circulation of fresh air and the maintenance of such temperature as will secure therein reasonable conditions of comfort for those working there. Where excessively high temperatures are necessary for technical reasons, adequate measures shall be taken by the management to protect the workers from such temperatures.

The State Government may prescribe a standard of adequate ventilation and reasonable temperature for any factory or class of factories and can suggest ways and means for reducing excessively high temperatures. In any factory, where dust or fumes injurious to the health of workers arise in any manufacturing process, effective measures shall be taken to prevent their inhalation or accumulation in any work-room.

- (vii) **Artificial Humidification** : In factories where humidity is artificially increased, the State Government may :

- (a) Prescribe standards of humidification;
- (b) Regulation methods used for humidification;
- (c) Direct prescribed tests for determining humidity, and directing that such tests are carried out - their results recorded; and
- (d) Prescribe methods to be adopted for securing adequate ventilation and cooling of the air in those rooms where artificial humidity is introduced.

Water used for the purpose of humidification shall be such as has been certified by the municipal authorities as fit for drinking.

- (viii) **Overcrowding :** To prevent overcrowding in a factory, the Act lays down that, in factories built before the passing of this Act, there shall be a space of at least 350 cubic feet per worker and in factories built after the Act came into force it shall be at least 500 cubic feet. To arrive at these figures, a height above 14 feet shall not be taken into consideration. In accordance with this rule, the Chief Inspector of Factories will communicate each factory manager the maximum number of workers that may be employed on any premises. He has, however, the power to exempt any factory or work-room from this rule, if he is satisfied that its observance of this rule is not necessary in the interest of the workers employed therein. their ordinary rates of wages.

- (ix) **Lighting :** It is the duty of the management of a factory to maintain sufficient suitable lighting, natural or artificial or both, in a factory and in all the work- rooms.

All glazed windows and sky-lights shall be kept clean on both the inner and outer surfaces, and effective measures shall be taken for the prevention of glare and formation of any shadows which may cause eye-strain or create a risk of accidents.

The State Government may make rules as to what is sufficient and suitable lighting, for a factory or a class of factories.

- (x) **Drinking Water :** In every factory, effective arrangements shall be made to provide, at suitable points conveniently situated for all workers employed, therein, sufficient supply of wholesome drinking water.

In every factory, where more than 253 workers are ordinarily employed, provision shall be made for cool drinking water during the hot weather.

- (xi) **Toilets :** In every factory, sufficient toilets shall be provided at places which are conveniently situated and are easily accessible to workers at all times while they are at the factory.

The state government may prescribe the number of toilets to be provided in and factory in proportion to the number of male and female workers employed therein.

- (xii) **Provision of Spittoons :** In every factory, there shall be sufficient number of spittoons in convenient places and they shall be maintained in a clean and hygiene condition.

- (xiii) **Safety Provisions :** According to the Act of 1934, a factory manager could afford to wait till an Inspector of Factories gave instructions as to what ought to be done to ensure the safety of workers. The Act of 1948 has placed the responsibility for safety matters on the shoulders of the owner or the manager of a factory. He must comply with all the safety provisions without waiting for the inspector's instructions.

Secondly, the Act places legal responsibility on the management for the maintenance and use of safety guards. It is its duty to supervise the use of these guards by the workers.

The specific provisions for safety are as follows; In every factory, all dangerous parts of all machines, such as the moving parts of prime movers, flywheels, electric generators, motors, rotary converters, etc., shall be securely fenced by safety guards of substantial construction which shall be kept in position while the parts of machines are in motion.

- (xiv) **Dangerous Fumes :** Adequate provision shall be made in a factory where dangerous fumes are present in any chamber, tank, pipe, etc., for egress of such fumes.
- (xv) **Explosive Gases, Dust, Fume :** If, in any factory, the manufacturing process raises dust, gas, fume or vapor which is likely to explode on ignition, all measures shall be taken to prevent any such explosion by -
- (a) Providing an effective enclosure of the plant or machinery used in the process, or
 - (b) The removal or prevention of accumulation of such dust, gas or fumes.
- (xvi) **Safety of Factory Buildings and Machinery :** If it appears to the Inspector that any building or part of factory is in such a condition that if it is dangerous to human life or safety, he may serve on the manager of the factory an order in writing specifying the measures that should be adopted and the specific date by which they should be carried out to ensure the safety of the building or factory. He may also serve an order to the manager, prohibiting its use until proper repairs or alternations have been carried out.
- (xvii) **Welfare Provision :**
- (a) facilities for Washing : In every factory, adequate and suitable facilities for washing shall be provided and maintained for the workers. Adequately screened facilities for washing shall be provided for male

and female workers separately. Such facilities shall be conveniently accessible and shall be kept clean.

- (b) Storing and Drying Clothes : The state Government may require any factory or class of factories to make provision therein of suitable places for keeping clothes not worn during working hours and for drying wet clothing.
- (c) Facilities for Sitting : In every factory, suitable arrangement for sitting shall be provided and maintained for all workers obliged to work in a standing position in order that they may take advantage of rest in the course of their work.
- (d) First-Aid Appliances : First-aid boxes, equipped with the prescribed contents, which will readily accessible during all working hours, shall be provided and maintained in every factory. The number of such boxes shall not be less than one for every one hundred and fifty workers.

(xviii) Penalties for Breach of Provisions of the Act : For any contravention of the Act, the occupier and the manager of a factory shall each be guilty of an offence and be punishable with imprisonment for a term not exceeding three months or with a fine up to Rs. 500 or with both.

In any person, who has been convicted of any offence punishable under the provisions of this Act, is again found to be guilty of an offence involving contravention of the same provision within a period of two years from the date of conviction will undergo imprisonment up to six months or with a fine up to Rs. 1,000 or with both. This Act, for the time, provides that if any worker contravenes any provision of this Act or any rules or orders, such as the use of safety guards, etc., he shall be punishable with fine up to Rs. 20.

India's ratification of International Labour Convention No. 90 prohibiting the employment of young persons in factories at night necessitated an amendment of the relevant sections of the Factories Act, 1948. This was achieved by passing an Amendment Act in April 1954. This Act added a new chapter on "Annual Leave with Wages" to the Factories Act, 1948. It lays down a period of 240 days as the minimum attendance necessary during a calendar year to qualify for leave with wages. It also prohibits employment of young persons on cleaning, lubricating or adjusting any prime mover or transmission machinery while is in motion, if such work exposes them to a risk of injury.

5.4 THE INDUSTRIAL EMPLOYMENT (STANDING ORDERS) ACT, 1946

The absence of standing orders clearly defining the rights and obligations of the employer and the workers in respect of recruitment, discharge, disciplinary action, holidays, leave, etc. was one of the most frequent causes of friction between management and workers. On the recommendations of the Tripartite Labour Conference held in 1943, 1944, 1945 the Government of India passed the Industrial Employment (Standing Orders) Act in 1946.

This Act provides for the framing of standing orders in all establishment employing 100 or more persons. It requires employers to submit within six months of enactment of the law standing orders covering the classification of workmen (permanent, temporary, etc.), the manner of intimating to them their hours of work, holidays, pay-days and wage rates, the procedure to be followed while applying for leave and holidays, the termination of employment or notice of discharge and for disciplinary action. The standing order after due certification, apply to all workmen in an industrial establishment. There cannot be different sets of standing orders governing the terms and conditions of workmen of a particular organisation, the text of the standing order, written in English or in any language understood by the majority of the workers, should be prominently displayed on special boards maintained for this purpose at or near the entrance through which most of the workers enter.

In pursuance of this Act, the central Government published the Central rules in 1946 which were applicable to Commissioner's provinces and to the undertakings under the Central Government. Its lead was promptly followed by all State Governments. In Maharashtra State, it has been made applicable to establishments in which fifty or more persons are employed. The Bengal Industrial Employment (Standing Orders) Rules, 1946 lays down in its Appendix A a model standing order which states conditions of employment in industrial establishments formally laid down by employers.

5.4.1 SUSPENSION

When a worker is suspended by the employer, pending investigation or enquiry into complaints or charges of misconduct against him, the employer should pay such employee subsistence allowance at the rate of 50 per cent of his wages, for the first ninety days of suspension; at the rate of 75 per cent of such wages for the remaining period of suspension.

5.4.2 STOPPAGE OF WORK

The employer, may at any time, in the event of fire, catastrophe, breakdown of machinery or stoppage of power supply, epidemics or causes beyond their control, stop any section or whole of the establishment of the for any period without notice. In such cases the workers will be notified as soon as practicable, when work will be resumed and whether they are to remain in or leave their place of work. In case workers are laid off for short periods on account of failure of plant or temporary curtailment of production, the period of unemployment shall be considered compulsory leave with or without pay, as the case may be.

5.4.3 TERMINATION OF EMPLOYMENT

For terminating employment of permanent worker, notice in writing should be given, one month's notice for monthly paid workers and two weeks notice for others. In the absence of such notice, pay for the same period may have to be given. Temporary workers are not entitled to any notice or pay in lieu of notice. But a temporary worker cannot be terminated unless he has been given an opportunity of explaining the charges of misconduct alleged against him. When the employment of any worker has been terminated the dues payable to him should be paid within two working days of such termination the following acts may be considered misconduct and grounds for termination of employment:

- i) wilful insubordination or disobedience of any lawful order of a superior
- ii) theft, fraud or dishonesty in connection with employer's business or property.
- iii) wilful damage or loss to employer's goods or property
- iv) taking or giving bribes
- v) habitual absence without leave or absence without leave for more than 10 days
- vi) habitual late attendance
- vii) habitual breach of any law applicable to the establishment
- viii) riotous or disorderly behaviour during working hours at the establishment
- ix) habitual negligence of work

In the enquiry following the allegation against the worker should be allowed to appear in person or to be represented by an office bearer of the trade union of which he is a member. Such proceedings should be completed within a period of three months. If on the conclusion of the proceedings the worker is found guilty of charges framed against him, an order of dismissal, or fine, or stoppage of annual increment, or reduction in rank would meet the ends of justice, the employer shall pass such order accordingly. The worker is entitled

to his service certificate at the time of his discharge or dismissal from service. On the other hand if the worker is not found guilty of any charge framed against him, he shall be deemed to have been on duty during the period of suspension and shall receive the same wages which he would have had if he had not been placed under suspension after deducting the suspension allowance which has already been paid to him.

5.5 WEST BENGAL SHOPS AND ESTABLISHMENTS ACT, 1963

It is an act to regulate holidays, hours of work, payment of wages and leave of persons employed in Shops and Establishments of West Bengal.

- **Holidays**

In each week every shop shall remain entirely closed on at least one and a half day next proceeding or next following such day. At the same time every person employed in a shop shall be allowed at least one and a half day next proceeding or next following such day as a holiday. No wages may be deducted from the remuneration of the employee for such holiday even if he is employed on a no work no pay basis. Such a day and half day should not be altered more than once in any year. The state government may in the interest of the public, specify any particular day and half day during which all shops in one locality may remain closed.

- **Hours of work**

In no shop shall the opening of the shop be earlier than 8 a.m. and the closing be later than 8 p.m. no person employed in the shop is permitted to work for more than eight and half hours in one day or forty eight hours in one week. An employee must be allowed an interval for rest of at least half an hour after a maximum period of continues six hours of work. In hotels and restaurants the closing hour should not be later than 11 p.m.

- **Employment of children**

No child who has not completed the age of 12 years shall be employed in any shop or establishment.

- (iv) **Leave**

A person employed in a shop is entitled to privilege leave for 14 days with full pay for every completed year of service. He is also entitled for sick leave on half pay for 14 days and casual leave on full pay for 10 days during one year.

(v) Termination of service

An employee who has completed one year of continuous service may have his service terminated only on being given one month's notice or has been paid one month's wages in lieu of such service.

5.6 ENVIRONMENT (PROTECTION) ACT, 1986

The Environment (Protection) Act, 1986 drew its inspiration from the proclamation adapted by the United Nations Conference on Human Environment held in Stockholm in 1972. The protection and improvement of the human environment is a major issue which affects the well being of people and economic development through out the world: it is the urgent desire of people and duty of the government.

(i) Power of the Central Government

The central government has the power to take all such measures as deemed necessary for the purpose of protecting and improving the quality of the environment and preventing, controlling and abating environmental pollution.

(ii) Preventing, controlling and abating environmental pollution

No person carrying on any industry operation or process is allowed to discharge or emit any environmental pollutant in excess of such standards as may be prescribed by the central and / or state government. No person shall handle any hazardous substance except in accordance with such procedure and after complying with such safeguards as may be prescribed.

(iii) Furnishing information

When the discharge of any environmental pollutant in excess of the prescribed standard occurs due to any accident or unforeseen circumstances, the person responsible for such discharge and the person in charge of the place where such discharge has occurred is bound to prevent the environmental pollution as a result. He must also intimate such occurrence to concerned authorities.

(iv) Sample inspection

The central government or any officer on its behalf has the power to take, for the purpose of analysis samples of air, water, soil or other substance from the factory or business premises.

(v) Penalty

Whoever fails to comply with or contravenes any of the provisions of the Act

shall in respect of each such failure be punishable with imprisonment for a term upto five years or with fine upto Rupees one lakh. Where any such offence has been committed by a company, every person who was directly in charge when the offence was committed, as well as the company, is considered guilty of the offence and is liable to be punished accordingly. Where an offence under this Act has been committed by a Department of the Government, the Head of such Department is held guilty and is liable to be punished. But if such Head of the Department can prove that the offence was committed without his knowledge he cannot be held guilty.

(vi) Reports and returns

The Central government is empowered to require any person, officer, State Government or other authority to furnish any reports, returns, statistics and accounts regarding the functioning of businesses which are likely to or suspected to cause environmental pollution.

(vii) The Environment Protection Rules, 1986

To exercise the powers of the Act the Central Government has made a set of rules which are called the Environment Protection Rules. They deal with the standards for emission or discharge of environmental pollutants, prohibition and restriction on the location of industries and the carrying on processes and operations in different areas, functions of environmental laboratories, prohibition and restriction on handling hazardous substances and submission of environment statement.

5.7 THE SALE OF GOODS ACT, 1930

A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. Where under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a sale. But where the transfer of the property in the goods is to be transferred at a later date it is called an agreement to sell. An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

(i) Price

The price in a contract of sale may be fixed by the contract or may be left to be fixed by the dealing parties. Where the price is not determined likewise, the buyer shall pay the seller a reasonable price, which again depends on the circumstances of each particular

(ii) Quality or fitness

Subject to the provisions of this Act, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale, except when the buyer expressly makes known to the seller the particular purpose for which the goods are required. When goods are bought by description from a seller who deals in goods of that description, there is an implied condition that goods are of commercially saleable quality.

(iii) Sale by sample

In case of a contract for sale by sample there is an implied condition that the bulk of the goods shall correspond to the sample in quality. The buyer should be given reasonable opportunity to compare the bulk with the sample. It is also expected that the goods shall be free from any defect rendering them commercially unsaleable, which would not be apparent from reasonable examination of the sample.

(iv) Delivery of goods

When there is an unconditional contract for sale of specific goods in a deliverable state, the property in the goods passes to the buyer when the contract is made. It is immaterial what the time of payment or the price or the time of delivery of the goods is postponed.

(v) Goods on sale or return

When goods are delivered to the buyer on 'sale or return' or other similar terms the property therein passes to the buyer when he signifies his approval or acceptance to the seller. If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then on expiry of the term which has been pre determined for the return of the goods, it is assumed to be sold.

(vi) Risk

Unless otherwise agreed the goods remain at the seller's risk unless the property therein is transferred to the buyer. But when the property therein has been transferred to the buyer the goods are at the buyer's risk whether the delivery has actually been made or not.

(vii) Sale by person not the owner

Where goods are sold by a person who is not the owner and who has not sold them with the consent of the owner, the buyer does not acquire title to the goods. If one of several joint owners of goods has sold possession of them with the

permission of the co-owner, the property may be transferred to the buyer who buys it from such joint-owner.

(viii) Duties of buyer and seller

It is the duty of the seller to deliver the goods and of the buyer to accept delivery and make payment for the same, in accordance with the terms of the contract of sale. Unless otherwise agreed delivery of the goods and payment for the same are concurrent conditions.

CHECK YOUR PROGRESS I

1. Purpose of I D R.
2. What is a factory under Factories Act?
3. What rules are laid down for artificial humidification of factories?
4. What penalties are laid down for Breach of provisions in Factories Act?

5.8 EXERCISES

1. Briefly discuss the objectives of the following :
 - (i) Factories Act, 1948
 - (ii) Environment (Protection) Act, 1986
2. Briefly write a short note on the sale of Goods Act, 1950.
3. What are the objectives of West Bengal Shops and Establishment Act, 1963
4. What are the purpose of legislations?
5. Define Factory as per Indian Factories Act.
6. What are the specified hours of work for an adult worker under Indian Factories Act?
7. What is meant by overcrowding under Indian Factories Act?
8. What do you mean by suspension under the Industrial Employees Standing Order Act?
9. What activities are considered as ground for misconduct for termination of employment as per Industrial Employees Standing Order Act?
10. What holidays as per WB Shops and Establishments Act?
11. What are the powers of the Central Government as per the Environment protection Act?
12. What are the contents of the Environment protection Act Rules?
13. What do you mean by Quality of fitness as per Sale of goods Act?

UNIT 6 □ PROJECT REPORT

Structure

- 6.0 Objectives**
- 6.1 Introduction**
- 6.2 Idea Selection**
- 6.3 Selection of the Product / Service**
- 6.4 Aspects of a Project**
- 6.5 Phases of a Project**
- 6.6 Project Report**
- 6.7 Contents of a Project Report**
- 6.8 Proforma of a Suggested Project Report for a manufacturing project**
- 6.9 Exercises**
- 6.10 Suggested Readings**

6.0 OBJECTIVES

From this unit you will learn —

- What is a Project Report?
- Phases of a Project.
- Contents of a Project Report.
- Proforma of a Project Report.

6.1 INTRODUCTION

Successful entrepreneurial ventures are preceded by innovation, right planning and a congenial business environment. An entrepreneurial project is a specific activity on which money spent in the expectation of returns. It has three basic attributes: the input characteristics, the output characteristics and the social cost benefit characteristics. The inputs define what the project will consume, namely

raw materials, energy, manpower, financial resources and an organisational set up. The output characteristics of a project define what the project will generate. It may take the shape of production of additional goods or provision of additional service. These in turn, define the impact of the project on the project implementing body and the environment. Every project, however, has a social cost benefit aspect. It inevitably affects the current equilibrium of the availabilities and the non-availabilities in an economy and this involves the entire society. The sacrifice that the society will be called upon to make and the benefits that will accrue to society have therefore to be evaluated.

The identification of the project characteristics provides the basic information. This along with the information gathered from the study of the project implementing body and the environment forms the basis of evaluation of the feasibility prospects of the project idea. More importantly, an appraisal of a project must be carried out in explicit, well defined terms and preferably standardised based on sound economic logic. The setting up of an entrepreneurial venture should be based on careful and sound evaluation, that brings credibility to the project and protects it from inherent weaknesses. Successful and rigorous project analysis would therefore lead to a viable and healthy business unit.

6.2 IDEA SELECTION

Establishing a successful entrepreneurial business involves choosing a good idea, which is innovative, economically viable, commercially acceptable, manageable by the entrepreneur himself and that yields satisfaction to the entrepreneur. In this stage suggestions are available from all possible sources: customers, competitors, distributors, employees, etc. The suggested ideas need to be correctly screened to determine which are good enough to qualify for a more detailed investigation. The right idea will lead to a product or service which may be marketed successfully at a reasonable profit and will contribute to the growth of the business.

6.3 SELECTION OF THE PRODUCT/SERVICE

The decisive factors which influence the entrepreneurs choice of a product are guided by :

1. Whether there are import restrictions on the selected product or whether it is a banned item.
2. Whether the entrepreneur has significant experience or technical knowledge in the manufacture or marketing of the product.

3. Whether the market of the selected products are highly volatile or not.
4. Whether the product selected qualifies for concessions given by the government for producing and marketing certain products, which serve as import substitute or even essential item.
5. Whether selected product falls in the category of priority industries or small scale reserved item.
6. Whether the export possibility of the selected product is bright or not.
7. Whether the product requires special licenses for production.
8. Whether the selected product enjoys specific locational advantages and hence can benefit from niche marketing.
9. Whether the product is an ancillary for a basic industry as a result of which it enjoys an assured market.
10. Whether the raw materials require could be indigenously procured or imported.

Such a study of the project idea to develop a selected product is the starting point of the feasibility analysis. The study is undertaken to identify the logic of the project and the tasks which must be performed for achieving the objectives.

In this context a checklist for entrepreneurs choosing ideas may be useful:

Does the idea fit with the entrepreneur's skills and experience?

- Do you believe in the product or service?
- Do you understand the potential customers?
- Do you have experience in this type of business?
- Do you enjoy the tasks that are required to make this business successful?
- Do you working with and supervising the people employed in this business?
- Do you ponder over the idea in your spare time?
- Do you expect a good return?
- Do you think the idea will generate positive social returns?

Does the idea fit with the market?

- Is there a real customer need?
- Will you get a price that will leave a good margin?
- Would customers believe in the proposed product?
- Is there a cost effective way to market the product?

Does the idea fit with the enterprise?

- Does the idea fit the enterprise culture?
- Can you find a sponsorer for the project?
- Does it appear to have a low investment high profit profile?
- Will it lead to large markets and growth?

What to do when the idea is rejected?

- Give up and select a new idea
- Listen carefully, understand what is wrong, improve the idea and the presentation and try again.

6.4 ASPECTS OF A PROJECT

A project has to be considered from two different aspects. First a preliminary aspect which is concerned with analysing the product or service, its marketing, technical, financial and economic aspects. Secondly the project needs to be considered from its feasibility aspect, which deals with the commercial viability and profitability of the proposed project. However all the different aspects have to be studied simultaneously because they are inter related.

The study on different aspects of a project starts with the choice of the product or service which is determined by the technical characteristics required in making it and its potential of use to customers. The marketing angle considers the consumer preferences and the nature of competition the product may face. The prospective market share is an important feature in the study of the project. The technical aspect deals with the location of the factory, its scale of operations, the plant and machinery required in the process as well as the plant layout. One of the most important aspects that an entrepreneur usually considers is the financial aspect. The outlay on fixed assets, current assets, the working capital required to keep the production going are important aspects of an entrepreneurial analysis of a proposed project. On the other hand a project study is not complete without considering its social aspects, relating to its utility to society, employment generation capacity, ancillary development accompanying it, scope of regional development with growth of the business and other related social benefits.

Following this is the second aspect which is primarily concerned with the feasibility of the project. The feasibility study is broken up into its constituent elements, namely, the financial viability, profitability and the socio-economic desirability. The financial viability of a project considers the costs and benefits

that accompany the project as also the risks that the entrepreneur is likely to bear in running the project. The Internal Rate of Return is no less an important part of the analysis of a project. Profitability of a project is concerned with the break even analysis and the profit earning capacity of the project. Financial projections are therefore made with the help of Balance Sheets and Statement of Sources and Uses of Funds. The feasibility aspect of a project study is incomplete without due attention being paid to social goals that may be pursued by a project. Thus an analysis of the contribution of the project towards the greater social good and generating returns for the benefits of society is of pivotal importance.

In brief, primarily a project is assessed for its economic viability in terms of marketing, technical, production, financial and economic aspects. If this analysis suggests that the project is *prima facie* worth while a more detailed investigation is conducted. Next the feasibility of the project is examined. The detailed analysis at various stages provides the stimulus to its smooth implementation. A sound project is one which is socio-economically desirable and aims at social good for a large segment of society.

6.5 PHASES OF A PROJECT

An entrepreneur has to consider carefully various factors from start to finish in converting profitable opportunities into realities. The process of project management may be divided into six broad phases, namely

1. Identification, which deals with selection of a project after careful screening of the environment of investment opportunity and its likely return.
2. Formulation is translation of the entrepreneurs idea into a concrete project after scrutiny of its important preliminary aspects and preparation of feasibility reports.
3. Appraisal involving scrutiny, analysis and evaluation of market, technical, financial and economic variables. It also takes into consideration break even point, profitability and return on investments.
4. Selection, which is a rational choice of a project in the light of objectives and inherent constraints.
5. Implementation of the plans with the available resources.
6. Management is actually the judicious operation of a project with the objectives of maximising returns, maximising net present value.

6.6 PROJECT REPORT

Soon after identification of a project and its implementation, the project report is formulated, before an investment is procured. The project report assesses the demand of the product proposed to be produced, works out the cost of investment as well as operational costs and thus estimates expected profitability from the proposed project. It is on the basis of this project report that the entrepreneur takes his decision on whether to proceed with the project. Also the financial backers, bankers and the state departments involved in the project take their decisions on the ways and extent to which help may be provided to this proposed project. The project report is the main instrument in the hands of the entrepreneur in procuring funds for his projects by convincing potential financiers about the profitability of the project.

The financial institutions and the commercial banks insist on obtaining a project report from the entrepreneur before taking any action on his application for financial or other support. A project report containing relevant data in respect of a project serves as a guide to management and records merits and demerits in allocating resources to production of goods and services. It is prepared basically with a view to analysing the extent of opportunities in the contemplated project.

A project report contains information on the following aspects:

Economic aspects : The project report should be able to present economic justification for investment, as well as the market analysis for the proposed product.

Technical aspects : The appropriate report should give details about the technology needed, equipment and machinery required and the sources of their availability.

Financial aspects : The report should indicate the total investments required including sources of finance and the entrepreneur's contribution. It should also present comparative study of cost of capital with the expected return on capital.

Production aspects: The ideal project report contains a description of the product selected for manufacture and the reasons behind such selection. The details of the product whether it is export worthy or not, etc. should be mentioned in the report.

Managerial aspects: the report should contain qualifications and experience of the persons to be made responsible for the job.

6.7 CONTENTS OF A PROJECT REPORT

The following are the contents of a project report;

1. Objective and scope of the report
2. Product characteristics (specifications, uses, applications, standards and quality)
3. Market position and trends (installed capacity, production and anticipated demand export prospects, information on import and export, price structure, etc.)
4. Raw materials (requirements, prices, sources, etc.)
5. Process of manufacture (selection of process, production technique and production schedule)
6. Plant and machinery (equipment, instruments, essential infrastructure, etc.)
7. Land and building (vacant land, shed, factory premises, etc.)
8. Financial commitments (fixed and working capital investment, project cost etc.)
9. Marketing channels (strategy and trading practices)
10. Personnel (man power plan, remuneration of labour)

6.7 PROFORMA OF A SUGGESTED PROJECT REPORT FOR A MANUFACTURING PROJECT

1. Introduction

- (a) Scope
- (b) Product (give specification, viz., ISS/BSS/ASS)
- (c) Process
- (d) Marketability
- (e) Location
- (f) Sources of finance/repayment schedule.

2. Scheme

- | | |
|---|-----|
| (a) Land and Buildings:
(owned/rented or leased) | Rs. |
| (b) Machinery and Equipment
(give detailed specification/capacity/imported or indigenous). For imported machine allowances (for duty on imported items, dock clearance charges, freight and insurance and local freight) | Rs. |
| Total : | Rs. |
| (c) Testing Equipment | Rs. |

(d)	Other fixed investments:	
	(i) Packing and forwarding charges	Rs.
	(ii) Electrification and installation charges	Rs.
	(in) Cost of tools/jigs/fixtures	Rs.
	(iv) Cost of office equipment	Rs.
(c)	Total Non-recurring expenditure (a) + (b) + (c) + (d)	Rs.
(f)	Staff and Labour:	Rs.
	(i) Indirect labour nos. and wages/p.m.	Rs.
	(ii) Direct labour nos. and wages/p.m.	Rs.
	Total salaries p.m. {(i) + (ii)}	Rs.
(g)	Raw Materials and Consumables:	Rs.
	(Per month on single shift basis with specifications)	
	(i) Indigenous	Rs.
	(ii) Imported	Rs.
	Total: Rs.	
(h)	Other items of expenditure:	Rs.
	(Per month on a single shift basis)	
	(i) Power and water charges	Rs.
	(ii) Advertising and travelling	Rs.
	(iii) Transport	Rs.
	(iv) Commission to distributors/agents	Rs.
(i)	Total recurring expenditure: (f)+(g)+(h)	Rs.
(j)	Working capital for 3 months 3 x recurring expenditure	Rs.
(k)	Total Investment required:	
	(i) Non-recurring expenditure	Rs.
	(ii) Working capital for 3 months	Rs.
	Total:	Rs.
(l)	Total Cost of Production:	
	(i) Total recurring expenditure	Rs.
	(ii) Depreciation on machinery and equipment	Rs.
	(iii) Depreciation on building	Rs.
	(iv) Maintenance charges	Rs.
	(v) Interest on total investment	Rs.
	(vi) Welfare for staff	Rs.
	(vii) Office stationery and postage etc.	Rs.
	Total	Rs.
(m)	Profit and Loss Account :	
	(i) By sale of... (qty.) of ... @ Rs.	
	ex-factory exclusive of applicable taxes	Rs.
	(ii) Cost of production (l)	Rs.
	(iii) Profit (i) - (ii) Approx. percentage of the total capital employed	Rs.
	Total:	Rs.

3. Profitability and Projections

(generally for about 5 to 10 years)

Phase of activity

Profitability of phases

4. Infrastructure

- (i) Locational advantage
- (ii) Availability of material/power/water/labour
- (iii) Government policy Rs.

Break-Even Point

- (i) Fixed Costs :
(Executive salaries/depreciation/rent/interest
on investment and administration costs) Rs.
- (ii) Variable costs (direct labour/direct material/income-tax/
commission and administration costs) Rs.

Item of Cost	Fixed	+	Variable	Total
Materials	Rs.		Rs.	Rs.
Labour	Rs.		Rs.	Rs.
Other Expenditure	Rs.		Rs.	Rs.

$$Q = \frac{F}{P - V}$$

Where Q = Break-Even Quantity

F = Fixed Cost

V = Variable Cost per unit

P = Sales Price per unit

5. Names and Addresses of Suppliers

- (i) Raw Materials
- (ii) Machinery and Equipment

6. Remarks

Seal and Dale

(Signature of the Consultant)

5.8 EXERCISES

1. Discuss the factors which influence the entrepreneurs choice.
2. What are the contents of a Project Report?
3. How do you prepare a Project Report?
4. Briefly discuss the different aspects of a Project.

5.9 SUGGESTED READINGS

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