Chapter 4

Support systems in Tamilnadu and their Assistance to MSME sector
(Analysis and Interpretation of Data)

4.1. Introduction

In this section, the researcher has made an attempt to study the Institutional support systems and the assistance rendered by various financial and promotional institutions in Tamilnadu.

The Small Scale Industrial (SSI) Sector is one of the most vital sectors in the economic growth of our country with sustained employment potential. The SSI sector has a major share in production and serves as a nursery for development of entrepreneurial talents. This sector, which accounts for 95% of the industrial units, accounts for 40% of manufacturing output and contributes 35% of the exports. Industrial units having investment of not exceeding Rs.100 lakhs on Plant & Machinery is defined as Small Scale Industry and the Industrial units with an investment on Plant & Machinery not exceeding Rs.25 lakhs, as Tiny Industry. With the liberalization Policy, the global competition is intensifying and there is a danger of local markets being swamped by imports. It is imperative that the SSIs should have the ability to respond effectively to this changing trend. The thrust on the SSI Sector
must therefore be on enhancing competitiveness through continued technology up gradation and at the same time retaining employment generation.

Starting a business or industrial unit – say enterprise in short requires various resources and facilities.\(^1\)

The Government of Tamilnadu has focused the Government policy towards the promotion of Agro-based and Food Processing Industry which has a three pronged advantage, namely, promotion of SSI in rural areas by utilizing local resources, creation of rural employment and upliftment of rural economy by way of value addition to the area specific produce.

### 4.2. New Anna MarumalarchiThittam

Government of Tamilnadu is implementing New Anna MarumalarchiThittam for the promotion of Agro based/ food processing and other related industries in rural areas to generate rural employment and thereby improve the rural economy. The projects which have commenced production includes food products like mango pulp, fruit pulp, edible oil refining, chips and Agro based projects like modern rice mill using polisher and colour sorter etc. The other projects include cold storages, manufacturing of eco-friendly products of coir such as coir pith block, Herbal products like aloe vera gel, herbal medicines, eucalyptus oil, Export oriented aqua-culture items like shrimp, fresh water prawns, flori-culture products like flower concentrates from jasmine, export oriented horticulture produces like cut flowers, etc.

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In order to enthuse the potential investors in the District to take up industrial venture in Agro based and food processing sector in rural areas, the Government has ordered a **Special Entrepreneurship Development Programme** through reputed training institutions like Central Food Training and Research Institute, Mysore, Tamil Nadu Agriculture University, Coimbatore, National Institute of Small Industries Extension Training, Hyderabad etc. The Government has also sanctioned 25% training cost, not exceeding Rs.2500/- per participant for imparting training to the potential investors.

### 4.3. On-Line Registration and Issue of Provisional SSI Registration Certificate

The issue of online provisional SSI Registration Certificate is the first milestone of this department towards e-governance. The scheme was inaugurated by Hon’ble Chief Minister on 12.9.2002, which has become a boon to the entrepreneurs to have a hassle free registration of Provisional Certificate through approved Browsing Centres on payment of a nominal service charge of Rs.50/- on all days. These Provisional Registration Certificates will enable the entrepreneurs to avail Bank finance, statutory clearance and power supply on priority basis.

### 4.4. Export Guidance Cell

The globalization has accelerated the process of opening up of economy and competition in the market. Difficulties in marketing of SSI products have always been a major problem for small scale manufacturers. The SSIs should have access to the export potential for expanding the marketing network. Towards this initiative, the governments have formed Export Guidance Cell in all the District Industries Centers.
Export Guidance Cell provides information on existing export activities to the entrepreneurs and necessary assistance on procedural matters for export. In order to render service effectively, the Export Guidance Cells have been strengthened by providing Computers with internet and Portal connectivity.

Towards broadening the knowledge base of the officials working in the District Industries Centers on the import and export procedure and other peripheral areas relating to Exports, 90 Officers of the Department of Industries and Commerce were given training on Export Promotion and Guidance at National Institute of Small Industry Extension Training, Hyderabad at a cost of 9 lakhs.

4.5. Entrepreneurship Development Programmes

Development of Entrepreneurship Culture and Quality Business Development Services are the major requirements for the industrial growth. The State Government is implementing Entrepreneurship Development through the Directorate of Industries and Commerce and through Entrepreneurship Development Institute. Apart from imparting training to the PMRY beneficiaries, a massive Entrepreneurship Development Programme for women towards self-employment is implemented by this Department.

Every year nearly 25000 women are trained under the Entrepreneurship Development Programme for women, which include training for the technically qualified women also. The training programmes are conducted through the Entrepreneurship Development Institute, Chennai, and Centre for Entrepreneurship Development, Madurai and other approved NGOs. In addition to the above programmes,
Entrepreneurs who have set up SSI units under NAMT are also given Entrepreneurship Development training so that they are fully geared up to take up the Entrepreneurship.

Entrepreneurship Development Institute has recently started a 3 month skill development programme focusing on the unemployed and under employed diploma holders to set up micro enterprises on servicing modern white goods, floated by the multi-national companies, especially split A/C, Washing machine, cell-phones, mixie, color TV etc. This is aimed at elevating the employability status of these diploma holders, who are at present poorly paid. They could also bridge the gap in demand for Service Engineers required by the multi-national companies.

Entrepreneurship Development Institute is also organizing Entrepreneurship Development Programmes for tribals located at Nilgiris and Yercaud in cultivation of Anthurium, Ericulture etc.

During the current year, Entrepreneurship Development Institute has organized 3 days Entrepreneurship Awareness Camp for the benefit of final year students of engineering college and polytechnic to take up self-employment ventures.

4.6. E-Governance Initiatives

The Information Technology has created notable awareness among the employees to adopt the new technology to benefit the common public and facilitate the Industrial growth in urban as well as rural areas.
The Information Technology Task Force Committee has been formed under the Chairmanship of Secretary to Government, Small Industries Department, to implement and monitor the Government schemes through e-Governance.

The setting up of Electronic Auction Centre ("TEA SERVE" at Coonoor) and issue of On-line Provisional SSI Registration Certificate and market access through internet in the Export Guidance cells are notable e-Governance initiatives of the Department.

The staff of the department are trained on e-Governance in a phased manner to enable them to monitor schemes like New Anna MarumalarchiThittam, Prime Minister RozgarYojana, etc.,

4.7. Major Financial Institutions which render assistance to SSI units in Tamilnadu.

1. SIDCO
2. TIIC
3. DIC
4. MSME
5. Commercial Banks

The above institutions were outlined in the first chapter.

4.8. Women Industrial Parks

One of the strategies announced by the Hon’ble Chief Minister, for women empowerment is to establish 5 Women Industrial Parks in Tamilnadu exclusively an
for women entrepreneur which is the first of its kind in the country. As a special incentive to Women entrepreneurs, 50% of basic land cost has been waived, if Government poramboke lands are alienated for Women Industrial Parks. SIDCO will also waive the processing fee for these Women Entrepreneurs on their application for NOC to mortgage lands to any financial institutions, to get term loan assistance & working capital. SIDCO has also reduced the administrative charges from 15% to 10% on the land cost for these parks, except in estates in and around Chennai. Two new Industrial Parks for women entrepreneurs at Thirumullaivoyal near Chennai and Vazhavanthankottai near Tiruchirappalli have been completed and allotments are being made to women entrepreneurs. At Thirumullaivoyal, a further extent of 33.7 acres will be developed as tiny plots for women entrepreneurs during 2005-06. The third Women’s Industrial Park at Karuppur near Salem has been completed and applications have been received and the allotment process is on. During 2005-06, the Corporation will establish the remaining two women’s Industrial Parks at Madurai and Coimbatore.

4.9. Techno Parks

During 2004-05, the Corporation proposed to establish three ‘Techno Parks” for Tiny entrepreneurs in the semi urban areas. For this, lands have been identified at 2 locations. At Vinnamangalam near Vaniampadi, Vellore District SIDCO has entered upon the land belonging to the Industries Department. SIDCO has also obtained permission from HR&CE for Mayiladuthurai in Nagapattinam District. At Theni, land is being identified. The further works would be taken up and completed in 2005-06.
4.10. Distribution of Raw Materials

The Corporation has undertaken the supply of Raw Materials to Small Scale Industries at competitive rates. SIDCO is distributing the following raw materials.

[1] Iron and Steel


[3] Potassium Chlorate

[4] Printing Paper*

*The printing papers from Tamil Nadu Newsprint & Papers Limited are being supplied to Government departments, educational institutions and also printers, xerox copiers.

4.11. Tamil Nadu Small Industries - Scenario

Tamil Nadu is one among the few States that adopted the strategy of industrial growth with emphasis on Small Scale Industries. The average annual growth in number of units was 12.8% and employment generation around 10.6%. The State has always laid stress on harmonious development of both large and small industries to reduce disparities in sectoral stabilization and uniform economic development. As employment in the agricultural sector is stagnant and large industry sector is passing through ‘zero employment growth’, the Government’s policy is focused towards the promotion of Agro-based and Food Processing Industry which has a three pronged advantage, namely, promotion of SSI in rural areas by utilizing local resources,
creation of rural employment and upliftment of rural economy by way of value addition to the area specific produce.

The SSI sector covers a wide range of enterprises with diverse characteristics. There are tiny and micro enterprises on the one hand and sophisticated modern small scale units on the other. A good part of the SSI units gets registered under Factories Act and hence gets covered under Annual Survey of Industries (ASI). The units in this SSI Sector are also registered with the State Level Directorates of Industries and Commerce and data for this category gets collected from time to time on a census or sample basis.

The Village and Small Industries sector comprises of 5 sub-sectors, viz., Small Industries, Handloom and Textiles, Khadi and Village Industries, Handicrafts Development and Sericulture. Besides the Departments concerned with the above sectors, the State owned Corporations / Agencies like SIDCO, TANSI, Co-optex, Poombuhar Handicrafts Development Corporation, KVIB are functioning for the development / promotion of these Industries. In order to give impetus to the growth of small scale and rural Industries, Government has provided for protection / preference to items manufactured by the Governmental Agencies in procurement by other Government Departments or Agencies.

4.12. Institutional Finance

In all 58 financial institutions - twelve at national level and forty six at state level have been functioning exclusively for the industrial development of the country. Among the twelve all India financial institutions five Development Banks are
providing financial assistance to medium and large scale industries and one (SIDBI) is exclusively extending financial support to the tiny and small scale industries. These specialized financial institutions render assistance of a specialized nature addressed to such diverse interests as risk capital, venture capital and technology development financing hotels, tourism and related projects.

The remaining six are investment institutions providing term loans. Of the forty six State level institutions, eighteen State Financial Corporation (SFC's) are looking after the financial needs of the small scale sector and twenty eight State Industrial Development Corporation (SIDCOs) are taking care of the financial requirements of medium and large scale industries in addition to promotional activities.

4.13. Institutional Support System in Tamil Nadu

The major institutional support system available to the small scale units is discussed below:

Finance and skills are highly essential for generating entrepreneurship. But these alone cannot produce entrepreneurs in the absence of Government support and protection to new entrepreneurs. Such support system should function till such time a critical number of entrepreneurs are developed in a society, so that entrepreneurship does not remain as isolated, individual-dominated phenomenon but becomes reality and forms an integral part of the culture. Only systematic and organised nurturing of entrepreneurship would ultimately generate pressures on the existing socio-economic and political institutions, cultural attitudes, practices and values, towards modernisation."
The type of support system required varies from entrepreneur to entrepreneur, particularly in case of small scale entrepreneurs. An entrepreneur with engineering background requires different types of support as compared to an entrepreneur with a business background. Small scale entrepreneurs face special problems and are more vulnerable to failure. **Such entrepreneurs face the following types of problems:**

a) **Management** - Lack of sound organization, poor management of working capital.

b) **Marketing** - High competition, dependence on small number of buyers.

c) **Production** - Shortage of raw materials, power shortage, low level of technology.

d) **Finance** - Inadequate bank finance, paucity of capital or non-productive expenditure out of working funds.

Continuous inputs through the support system have to be provided to enable the entrepreneurs to tackle these problems. The types of input, their extent and their timing should be tailored to the needs of entrepreneurs at various stages of their development. The process of development begins with the selection of entrepreneurs and ends up with the break-even stage. **The support systems needed at different stages are given below:**
This structure has been built by the Government through incentive oriented policies, facilities and concessions over a period of four decades. It has been designed to generate industrial entrepreneurship. Various Governmental agencies provide finance, infrastructure and training facilities.
4.14. Support system in India

It consists of various institutions at the national and state levels. It has filled a vital gap in the industrial development of the country by promoting entrepreneurship. It
has succeeded in focusing the attention of administrators and political leaders on the problems of entrepreneurial development in the small scale sector. While appreciating the wide network of the support system in India, Staley and Morse concluded: "No effort combining so many elements in a simultaneous approach to small factory stimulation has been launched in any other country". In addition to the large support, the nationalized commercial banks have launched special programmes through the expanding network of their branches. These programmes are particularly designed to promote industrialization of 'backward areas' so as to achieve the goal of balanced regional development. The entrepreneurial support system consists of the following weaknesses.

1. **There is no uniform procedure for selection of potential entrepreneurs.**
   
   **Therefore, the risk of wrong selection remains high.** As the available resources are scarce, it is both economically and socially necessary that every participant in the training programme ends up with an enterprise and ensure it runs on a self-sustaining basis within the shortest possible time. Support system alone is not responsible for ensuring this outcome. The entrepreneur also has an obligation to the society which has invested its scarce resources towards his development. Lack of appreciation of this cultural obligation has led to undesirable outcomes. The support agencies tend to focus on the number of enterprises rather than on their continuous viability. Financial mismanagement on the part of entrepreneurs has been leading to increased sickness and closure of many enterprises.

2. **The existing support system operates as financial institutions.** No doubt capital is the major inhibiting factor in entrepreneurial development in India. **But,**
finance alone cannot promote entrepreneurship. Entrepreneurial motivation and managerial skills are equally important. Therefore, the institutions must assume a new development role and do more promotional role.

3. The institutions in the support system tend to be conservative and are excessively security-oriented. They are more concerned with the provisions of the scheme than with the needs of the people they are supposed to help. These institutions are based on bureaucratic organization structures and treat their clients impersonally in a mechanical manner.

4. A large percentage of the entrepreneurs are completely unaware of the various programmes of assistance offered by the support agencies. The entrepreneurs believe that assistance from the agencies involves much delays, harassment and bribery. Many of them are in direct need of assistance but are reluctant to approach the institutions. The institutions, on the other hand, take the plea that people do not come forward to take advantage of their services.

5. There is no co-ordination between various agencies concerned with the support system. In the absence of active co-ordination, an entrepreneur has to undergo investigation and scrutiny several times. Another problem caused by lack of co-ordination is duplication in the activities of the supporting agencies.
Figure 4.3. Institutional Support System

COMMERCIAL BANKS

WORKING CAPITAL

CO-OPERATIVE BANKS

TERM LOAN

TERST TERM

CREDIT GUARANTEE

LONG TERM

REFINANCE

RBI

GOVT.

STATE AID

SUBSIDY

RRB's

SFC's

SSIDC

NSIC

IDBI

RBI

IFC

IRCI
6. The existing agencies in the support systems are finding it difficult to feed the increasing number of trained candidates and accommodates them in the **EDP with economically viable and technologically feasible projects**. Most of the small scale entrepreneurs lack of ability to plan for a viable project which is essential for the success of an enterprise. Many of the institutions do not have experts for judging the viability of the projects. As a result, some of the deserving projects may be denied assistance.

**In the small scale entrepreneurial support system, the Directorate of Industries and Commerce is the Apex State Government body that regulates the industrial development in the state. The services of MSME can be grouped into 4 categories forming out activity quadrilateral.**

**1. Technical Consultancy Services**

Providing technical advice on proper selection of machinery and equipment, process and techniques of manufacture, appropriate raw materials to be used, modernization, diversification etc,

- Economic information / services
- Preparation and supply of Market Survey Reports, Project Profiles and Feasibility Report.
- Development of Ancillaries
- Management consultancy and training
- Export promotion
- Sub-contract Exchange
- ISO 9000 & ISO 14000
- SENET (Small Enterprises Net Working)
- Technology Resource Centre (TRC)
- Sub-contracting and Partnership Exchange (SPX) under UNIDO
- Cluster Development Programme for Auto Components of Chennai under UNIDO

2. Training facilities

✓ Entrepreneur Development Programmes (EDP)

✓ Management Development Programmes (MDP)

✓ Skill Development Courses such as

✓ Software & hardware

✓ Repairing & serving of Electrical & Electronic Appliances

✓ Textile Designing, Printing and dyeing

✓ Catering Technology

✓ Fashion Designing

✓ Interior Decoration

✓ Air ticketing and Travel Management

✓ Bio Informatics

✓ Call Center
✓ Cosmetology
✓ Law Management
✓ Counseling, Retraining & Redeployment (CRR) for VRS optees from Central Public Sector Enterprise.

3. Consultancy

SISI (MSME) has experts and consultants in the following disciplines to assist and guide the prospects as well as new entrepreneurs.

- Mechanical Engineering
- Electrical Engineering
- Electronics
- Metallurgy
- Chemical Engineering
- Metal Finishing
- Glass & Ceramics
- Food Industry
- Ancillary Development and Tamilnadu Sub-contract Exchange
- Hosiery
- Leather and Leather Goods
- Industrial Management and training
- Production Index and Statistics
• Economic Investigation and Sick Industries Rehabilitation

• Modernization

• Export Marketing

4. Common Facility Services

SISI offers Common Facility through its Workshops at Chennai, Coimbatore and Tirunelveli.

Main facilities at Chennai.

- CNC Vertical Machining Centre
- CNC Wire-cut EDM
- Conventional Machinery like Planners, Surface Grinding, Lathe milling, Shaping
- Carpentry
- Metal Finishing
- Screen Printing

Main facilities at Coimbatore.

➢ CNC Lathe
➢ Pump & Motor Testing

Main facilities at Tirunelveli.

➢ CNC Lathe
➢ Welding
Conventional Machinery like Lathe, Milling, etc.,

4.15. Commercial Banks

The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment-generating activities.

Commercial banks\(^2\) and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally, the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are not considered creditworthy. Hence, despite efforts to overcome the widespread lack of financial services, especially among smallholders in India, and the expansion of credit in the rural areas in the states of India, the majority still have only limited access to bank services to support their private initiatives. In the recent past, there has been an increased tendency to fund credit programmes in India aimed at small-scale enterprises. Despite emphasis on increasing the availability of

credit to small and micro enterprises (SMEs), access to credit by such enterprises remains one of the major constraints they face. A survey of small and micro enterprises found that up to 32.7% of the entrepreneurs surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit. Although causality cannot be inferred a priori from the relationship between credit and enterprise growth, it is an indicator of the importance of credit in enterprise development. The failure of specialized financial institutions to meet the credit needs of such enterprises has underlined the importance of a needs oriented financial system for rural development. Experience from informal finance shows that the rural poor, especially women, often have greater access to formal credit facilities than to formal sources.

The sector contributes to the creation of employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households. With about 70% of such enterprises located in rural areas, the sector has a high potential for contributing to rural development. Yet the majority of entrepreneurs in this sector are considered unviable by most formal credit institutions. Whereas a small number of NGOs finance an increasing number of micro enterprise activities, most formal institutions still deny these enterprises access to their services.

Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy. Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities,
have not been addressed. In addition, there is no empirical study indicating the potential role of improved lending policies by both formal and informal credit institutions in alleviating problems of access to credit. Knowledge in this area, especially a quantitative analysis of the effects of lending policies on the choice of credit sources by entrepreneurs, is lacking for the rural financial markets.

Although informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises in some countries, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of these entrepreneurs. This is because as micro enterprises expand in size, the characteristics of loans they require become increasingly difficult for informal credit sources to satisfy, yet they still remain too small for the formal lenders.

To conclude, in this chapter, the role of various promotional and financial institutions in providing assistance to the sample entrepreneurs has been studied. Therefore, it is evident that the industrial development requires a conducive atmosphere where entrepreneurial habit and spirit can be cultivated right from the initial stage. Both the Central and the State Governments have taken many policy decisions to speed up industrialization all over the country. Through Five Year Plans, many financial and promotional institutions were established to implement the policy decisions. The Central Government along with the State Government execute the policy decisions. But, slow implementation of the subsidies and incentives and other problems faced by the entrepreneurs have affected the industrial environment. Despite the prevailing situation the sample entrepreneurs have entered into business and industry with the help of Government's assistance.