CHAPTER V.

FINANCIAL ASSISTANCE

AND

TAX RELIEF.
FINANCIAL ASSISTANCE

Lack of adequate finance and credit has always been a major problem of small industries in Madhya Pradesh. Yet this problem is not easily separable from others like marketing, availability of raw materials, quality and cost standards etc. It has been recognised from the inception of the Small Industry Assistance Programme that adequate, if not liberal, credit is essential if this sector is to develop on the lines envisaged in the Industrial Policy Resolutions and the Five Year Plans.

Small scale industrial units do not have access to the capital market because they are mostly organised on proprietary or partnership basis and are of very small size. They do not have access to institutional sources of finance also partly because of their size and partly because their surpluses which can be utilised to repay loans are negligible. They are also unable to find investible surpluses from their own earnings because of limited profits. Consequently, they resort to moneylenders who charge usurious rates of interest. Hence, small entrepreneurs continue to be financially weak. The aim of Government policy has therefore, been to ensure a free flow of adequate finance, through institutional sources, at reasonable rates of interest to this sector.

FINANCIAL ASSISTANCE TO SMALL SCALE AND COTTAGE INDUSTRIES IN MADHYA PRADESH

The Government of Madhya Pradesh and the financing institutions have introduced various schemes to assist small-scale and cottage industries in obtaining credit facilities. Loans on liberalised terms to small-scale and cottage industries, including industrial co-operatives, are available under the Madhya Pradesh State Aid to Industries Act administered by the Directorate of Industries, Madhya Pradesh, Bhopal. Medium and Long term loans are available from the Madhya Pradesh State Financial Corporation, Indore. The State Bank of India provides credit facilities for working capital. Other nationalised banks, which have a wide
coverage in the State, also provide loans to small-scale industrialists on quite soft terms and conditions. The Madhya Pradesh Khadi and Village Industries Board provides credit facilities only for Khadi and village industries in the State. A Scheme of guaranteeing commercial banks' loans to small-scale industrial units is being operated by the Reserve Bank of India.

(I) THE MADHYA PRADESH STATE AID TO INDUSTRIES ACT, 1958.

Following the recommendations of the Small Scale Industries Board legislations were enacted by different State Governments for providing aid to industries. The Madhya Pradesh State Aid to Industries Act was enacted in 1958 to regulate the grant of State aid to industries. The Act enables the Government to provide industries with financial and non-financial assistance. However, the financial assistance occupies a central place in the scheme of assistance contemplated under the Act.

The Act classifies industries into three categories, viz., large scale industries, medium scale industries and small-scale industries. According to the Act any industry in which the capital outlay on fixed assets exceeds Rs. 10 lakhs is regarded as a large scale industry. An industry in which investment in fixed assets is between 2 to 5 lakhs is a medium scale industry. Small-scale industries are those which have an investment in fixed assets of less than Rs. 2 lakhs.

Under the Act a State Aid to Industries Committee is constituted with the Minister for Commerce and Industry as its chairman. The Committee includes the Secretaries in the Departments of Commerce and Industry, Finance, and Planning and Development. The Director of Industries, Madhya Pradesh and the Managing Director of the State Financial Corporation are also the members of the Committee. The Act provides for representation of industries and the legislature on this Committee.

The Section 9 of the State Aid to Industries Act provides for the following forms of State aid to industries.
(a) the grant of a loan;
(b) the guarantee of a cash credit, overdraft or fixed advance with a bank;
(c) the guarantee of a minimum return on the whole or part of the capital of a joint stock company for a period fixed in accordance with rules made under this Act;
(d) underwriting the issue of stock, shares, bonds or debentures by a limited joint stock company;
(e) the guarantee of principal and interest on debentures issued for or by a limited joint stock company;
(f) the acquisition of shares in a limited joint stock company either by the payment of money or in consideration of the grant of any facility specified in clause (c), according as the State Government may deem fit;
(g) the grant, on favourable terms, of land, raw material, fuel, water or any other property or right vested in the State Government, subject to the provision of any law, rule or order for the time being in force;
(h) the grant, free of charge or on favourable terms, of the services of experts or persons in the service of the Government for starting or advising an industry;
(i) the payment of subsidy -
(i) in the case of any large-scale or medium scale industry, for the conduct or research;
(ii) in the case of any small industry, for one or more of the following purposes, namely -
(a) the purchase of land, machinery and equipment,
(b) the construction of factory, buildings, godowns, wells, watch houses;
(c) the making of technical improvements in the machinery in actual use in the industry;
(d) the employment of efficient managerial and supervisory personnel for a limited period;
(e) the training of workers employed in the industry;
(f) for the conduct of research.
The industries entitled to aid under the State Aid to Industries Act are enumerated in Section 10 of the Act as which reads as follows:

(1) State aid may be given:-

(a) in any of the forms specified in section 9, to-

(i) a new or nascent large scale industry or medium scale industry;

(ii) a large scale industry or medium scale industry, newly established in an area where such industries are undeveloped;

(iii) any large scale industry or medium scale industry other than those specified in sub-clauses (i) and (ii) where the State Government is satisfied that special reasons exist for aid; or

(iv) any small scale industry.

(b) in the forms specified in clauses (b) (c), (g) and (h) of the said section, to any industry.

(2) The State Government may require any industry in receipt of State aid to locate its head office in the State.

It will be evident that the State financial aid under the Act in case of large and medium scale industries is restricted only to a new or nascent industry or to those established in an area where such industries are undeveloped. However, in the case of small-scale industries there is no such restriction and all small-scale industries in the State are entitled to receive aid under the Act.

The Act empowers the State Government to form a limited company and delegate to it the various aid giving functions. Before granting aid to any industry the State Government may impose such conditions as in its opinion are necessary or expedient to safeguard its interests by securing the training of apprentices.

Ordinarily the loans advanced to a large or medium scale industry shall not exceed 66 2/3% of the net value of the assets of the industry after the deduction of value of all existing encumbrances. In the case of small-scale industries loans upto 75% of the value of such assets could be advanced. The loans granted to an industry are secured by a mortgage or floating charge upon the whole of the assets. Collateral securities could also be offered.
Restriction has been imposed on the industries receiving aid with regard to the disposal of their profits. Such industries could distribute profits only after the interest due on debentures and loans has been paid and a reasonable amount has been set aside for depreciation or obsolescence of plant and buildings and a further reasonable amount has been carried to a reserve fund to be utilised in such manner as the State Government may approve. The State Government can also fix a maximum rate of dividend which could be declared till the loans have been paid off. In the case of industries where the State aid exceeds 5 lakhs or where the shares held by the State Government exceed 25% of the authorised share capital the State Government shall appoint Government Directors or take such power as will ensure adequate control over the conduct of industries.

The State Aid to Industries Act provides that no State aid shall be given by the State Government to any industry save in accordance with the provisions of that Act. However, the Act does not debar the State Government to continue to assist the industries in the following forms:

**FINANCIAL ASSISTANCE UNDER THE M.P. STATE AID TO INDUSTRIES ACT**

As we have already seen the central position in the State assistance under the Act is occupied by the financial assistance. The State assists small-scale industries financially in the following ways:

1. By granting loans and subscribing to the share capital of the limited joint stock companies.
2. Guarantee of a minimum return on the whole or part of the capital of a joint stock company for a fixed period.
3. Guarantee of a cash credit overdraft or advance granted by a bank.
4. Guarantee of principal and interest on debentures issued by a limited company.
5. Underwriting the issue of stock, shares bonds or debentures by a limited company.
(vi) The payment of subsidy for research by a large or medium scale industry.

(vii) Subsidies granted to small-scale industries for one or more of the following purposes:
(a) Purchase of land, machinery and equipment,
(b) Construction of factory buildings, godowns, wells, etc.
(c) Technical improvements in the machinery used in the industry,
(d) Employment of efficient managerial and supervisory personnel for a limited period,
(e) Training of workers employed in the industry,
(f) For the conduct of research.

Small-scale industries which in the State are rarely organised as joint stock companies can benefit from the State financial assistance only in the form of loans, credit guarantee and subsidies.

An idea about the extent of financial assistance provided by the State Government to the industries can be had from the following table which shows distribution of loans under the M.P. State Aid to Industries Act from 1958-59 to 1971-72.¹

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AMOUNT (IN LAKHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958-59</td>
<td>14.16</td>
</tr>
<tr>
<td>1959-60</td>
<td>12.39</td>
</tr>
<tr>
<td>1960-61</td>
<td>15.43</td>
</tr>
<tr>
<td>1961-62</td>
<td>10.84</td>
</tr>
<tr>
<td>1962-63</td>
<td>30.73</td>
</tr>
<tr>
<td>1963-64</td>
<td>20.33</td>
</tr>
<tr>
<td>1964-65</td>
<td>18.00</td>
</tr>
<tr>
<td>1965-66</td>
<td>18.00</td>
</tr>
<tr>
<td>1966-67</td>
<td>7.00</td>
</tr>
<tr>
<td>1967-68</td>
<td>18.94</td>
</tr>
<tr>
<td>1968-69</td>
<td>18.03</td>
</tr>
<tr>
<td>1969-70</td>
<td>9.56</td>
</tr>
<tr>
<td>1971-72</td>
<td>2.80</td>
</tr>
</tbody>
</table>

¹ Source: Directorate of Industries, Madhya Pradesh, Bhopal.
DISTRIBUTION OF LOANS TO SMALL SCALE INDUSTRIES UNDER THE M. P. STATE AID TO INDUSTRIES ACT.

RS. IN LAKHS

1961-62
1962-63
1963-64
1964-65
1965-66
1966-67
1967-68
1968-69
1969-70
1971-72
From 1958-59 to the end of 1970-71 loan assistance totaling to ₹3,306,71,010 was provided to 30,177 industrial units in the State.

(II) MADHYA PRADESH FINANCIAL CORPORATION.

The need to develop separate institutional sources of finance for the small-scale sector was recognised soon after the Industrial Finance Corporation was constituted to meet the financial requirements of the large scale sector. A separate act called the State Financial Corporations Act was passed in 1951 enabling each State to start a separate State Financial Corporation to finance the long term needs of medium and small-scale industrial units. It was also accepted that Government financial assistance could be channelled more and more through these Corporations.

Madhya Bharat Financial Corporation was established in 1955 under the State Financial Corporations Act, 1951. After the re-organisation of States on 1st November, 1956, new State of Madhya Pradesh was formed and the Corporation was renamed as the Madhya Pradesh Financial Corporation. The authorised share capital of the Corporation is ₹ 2 crores. The Corporation also raises funds by issue of bonds from time to time. The Corporation also replenishes its funds by obtaining refinance from the Industrial Development Bank of India.

Up to March, 31st, 1973 the Madhya Pradesh Financial Corporation had raised ₹ 1 crore by issue of shares, ₹ 5,61,45,000 through issue of bonds and debentures and ₹ 1,53,95,260 by way of borrowings from the Industrial Development Bank of India.

The Madhya Pradesh Financial Corporation can advance loans to industrial concerns already engaged in or proposed to be set-up for the following activities:

(i) Manufacture of goods,
(ii) Preservation of goods,
(iii) Processing of goods,
(iv) Mining,
(v) Generation or distribution of electricity or any other form of power,
(vi) Development of an industrial estate,
(vii) Hotel (including restaurants),
(viii) Transport.

The Corporation grants accommodation for acquisition of fixed assets or for renovation, expansion or modernisation of the same. It also provides assistance towards working capital. The Corporation is not authorised to subscribe to the shares or stocks of any company. The loans are advanced on the security of fixed assets and in the case of manufacturing industries up to 60% of the net value of the assets is advanced by way of loans. However, if a industry is covered by the guarantee scheme up to 75% of the net value of the assets may be given as loans. The Corporation generally accepts a first mortgage of fixed assets. The Financial corporation besides advancing loans also guarantees the issue of loans by industrial concerns, the condition being that the period of loans should not exceed 20 years. The maximum amount which the Corporation can advance to a public limited company or a co-operative society is ₹ 20 lakhs. In other cases a maximum limit of ₹ 10 lakhs is prescribed. The Corporation does not accept loan applications for an amount of less than ₹ 10,000.

The period of repayment ordinarily is 10 to 12 years, but the Corporation is permitted to advance loans repayable in a maximum period up to 20 years. The repayment is by instalments. Loans given for working capital are repayable in 5 years. The assets offered in mortgage are required to be insured by the borrowing concerns. The rate of interest charged depends on the money market conditions. The present rates of interest are as follows:

The existing rate of interest on various advances by the Corporation was as under at the close of the year:

---

(i) General rate of interest including rate of interest for concerns (other than small-scale units) eligible for refinance.

9½% per annum with a rebate of ½% for punctual repayments.

(ii) Rate of interest for small scale units covered under Credit Guarantee Scheme and eligible for refinance.

9% per annum with a rebate of ½% for punctual repayments.

(iii) Transport Loans.

11½% with a rebate of 1½% for punctual repayments.

Various concessions in charging interest on advances remained unaltered during the year. These are:

(i) For Small-Scale industries, located in backward districts, where refinance is granted by the Industrial Development Bank of India at concessional rate of 3½% the rate of interest is reduced to 8% with a rebate of 1½%.

(ii) Rebate of 1½% is given in the rate of interest or loans upto ₹ 3.00 lakhs instead of ¾% rebate granted normally.

All applications received are scrutinised by the Corporation and the soundness of the concerns and the needs of the industry are tried to be assessed. In case of a industrial concern following factors are taken into considerations while deciding applications for loan:

(a) The financial soundness of the concern, future prospects of increasing output and margin of profit on completion of the proposed scheme. For new units capital structure, cost of production, margin of profit, availability of raw material and market for the products are also scrutinised.

(b) the value and nature of security offered.

(c) Managements past performance.

(d) Availability of experienced technical personnel.

(e) Technical and financial soundness of the scheme.
(f) The creditworthiness of the borrower.
(g) Clear title to the property of the mortgagor and its marketability.
(h) The manner of maintenance of accounts.¹

According to the annual reports of the Madhya Pradesh Financial Corporation since its inception it has sanctioned to 532 small-scale units total limits of ₹ 605.81 lakhs. However, because of lapse, withdrawal or cancellation of applications the effective limits sanctioned were to 391 small-scale units for an amount of ₹ 432.90 lakhs. The actual utilisation by 357 small-scale units was ₹ 339.25 lakhs.

The details of the financial assistance by the M.P. State Financial Corporation to small-scale units during the last 5 years and the total since its inception to 31.3.1973 are given in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of Units</td>
<td>Amount</td>
<td>No. of Units</td>
<td>Amount</td>
<td>No. of Units</td>
<td>Amount</td>
</tr>
<tr>
<td>1.</td>
<td>Total applications received.</td>
<td>60</td>
<td>72.11</td>
<td>50</td>
<td>65.25</td>
<td>133</td>
<td>122.70</td>
</tr>
<tr>
<td>2.</td>
<td>Total Limits Sanctioned.</td>
<td>46</td>
<td>41.52</td>
<td>39</td>
<td>62.94</td>
<td>30</td>
<td>35.96</td>
</tr>
<tr>
<td>3.</td>
<td>Total Applications Rejected.</td>
<td>10</td>
<td>14.77</td>
<td>11</td>
<td>15.70</td>
<td>2</td>
<td>0.87</td>
</tr>
<tr>
<td>4.</td>
<td>Total Applications Withdrawn/Lapsed/Closed, etc.</td>
<td>27</td>
<td>17.43</td>
<td>23</td>
<td>14.18</td>
<td>35</td>
<td>24.79</td>
</tr>
<tr>
<td>5.</td>
<td>Total Limits Subsequently Cancelled or Reduced.</td>
<td>9</td>
<td>12.42</td>
<td>16</td>
<td>22.62</td>
<td>11</td>
<td>21.62</td>
</tr>
<tr>
<td>6.</td>
<td>Total Applications pending at the end of year.</td>
<td>37</td>
<td>45.66</td>
<td>16</td>
<td>15.08</td>
<td>81</td>
<td>72.02</td>
</tr>
<tr>
<td>7.</td>
<td>Limits Sanctioned (effective)</td>
<td>46</td>
<td>41.52</td>
<td>39</td>
<td>62.94</td>
<td>30</td>
<td>35.96</td>
</tr>
<tr>
<td>8.</td>
<td>Limits Utilised.</td>
<td>32</td>
<td>28.61</td>
<td>31</td>
<td>33.41</td>
<td>22</td>
<td>32.53</td>
</tr>
</tbody>
</table>

LOANS SANCTIONED TO SMALL SCALE UNITS BY THE MADHYA PRADESH FINANCIAL CORPORATION.

RS. IN LAKHS

- 1968-69: 62.94
- 1969-70: 35.96
- 1970-71: 89.43
- 1971-72: 114.32
- 1972-73: 41.52
It will be evident from the above table that the Madhya Pradesh Financial Corporation has been advancing substantial financial assistance to the small-scale units in the State. Assisting small-scale industries is a major part of its functions. The Financial Corporation also provides assistance to industries other than small-scale ones. Nearly 1/3rd of the total loans sanctioned by the Corporation since inception have gone to the small-scale units. A comparative data regarding the loans sanctioned to small-scale units and other units for the last 5 years is given in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Loans sanctioned)</th>
<th>(Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small scale Units</td>
<td>Others</td>
</tr>
<tr>
<td>1968-69</td>
<td>41.52</td>
<td>20.50</td>
</tr>
<tr>
<td>1969-70</td>
<td>62.94</td>
<td>31.80</td>
</tr>
<tr>
<td>1970-71</td>
<td>35.96</td>
<td>71.18</td>
</tr>
<tr>
<td>1971-72</td>
<td>89.43</td>
<td>41.25</td>
</tr>
<tr>
<td>1972-73</td>
<td>114.32</td>
<td>46.63</td>
</tr>
<tr>
<td>Since Inception to 31.3.1973.</td>
<td>432.90</td>
<td>785.52</td>
</tr>
</tbody>
</table>

A noteworthy fact is that although the aggregate of financial assistance since inception of the Corporation to other units is nearly double of the same extended to the small-scale units, the trend during the last five years has been reversed. Excepting for the year 1970-71 in every other of the five years the loans sanctioned to small-scale units are nearly double of those sanctioned to other units. In the latest report, i.e., for the year 1972-73, the loans to small-scale industries have reached to nearly three times the total loans sanctioned to other units.
Considered industrywise the largest proportion of financial assistance to small-scale industries from the Corporation went to Food Manufacturing and Beverage industries. The other industries in order of quantum of assistance are basic Metal and metal products, Chemicals and Chemical Products, non-metallic mineral products, manufacture of textiles, and rubber products. The following table gives the figures regarding total financial assistance extended to various small-scale industries by the Madhya Pradesh State Financial Corporation since its inception.

**TABLE-12**

**MADHYA PRADESH FINANCIAL CORPORATION**

**INDORE**

**INDUSTRYWISE ANALYSIS OF FINANCIAL ASSISTANCE**

**UTILISED AS ON 31ST MARCH, 1973.**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Type of Industry</th>
<th>Limits Utilised (Small Scale Industries)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>1.</td>
<td>Food Manufacturing Industries and Beverage Industries.</td>
<td>80</td>
</tr>
<tr>
<td>2.</td>
<td>Basic Metal Industries and manufacturer of Metal Products, except Machinery and Transport equipment.</td>
<td>60</td>
</tr>
<tr>
<td>3.</td>
<td>Manufacture of Chemicals and Chemical Products.</td>
<td>29</td>
</tr>
<tr>
<td>4.</td>
<td>Manufacture of Non-Metalic Mineral Products, except Products of Petroleum and coal.</td>
<td>27</td>
</tr>
<tr>
<td>5.</td>
<td>Manufacture of Textiles.</td>
<td>22</td>
</tr>
<tr>
<td>6.</td>
<td>Manufacture of Rubber Products.</td>
<td>7</td>
</tr>
</tbody>
</table>

---

7. Manufacture of Electrical Machinery, Apparatus, Appliances and Supplies. 12 13.44
8. Manufacture of Machinery except Electrical Machinery. 17 13.25
9. Printing, Publishing and Allied Industries. 20 11.44
10. Manufacture of Transport equipment. 10 7.64
11. Transport (Road Transport Operators, etc.) 17 6.19
12. Manufacture of Furniture and Fixtures. 9 5.92
13. Manufacture of Paper and Paper Products. 9 5.33
14. Stone Quarrying, Clay and Sand Pits. 4 2.70
15. Manufacture of Wood and Cork except Manufacture of Furniture. 4 1.17
16. Manufacture of Footwear, Other Wearing Apparel and Made up Textile Goods. 1 1.00
17. Tobacco Manufactures. 1 1.00
18. Miscellaneous Manufacturing Industries. 28 17.55

While discussing the industrial development of Madhya Pradesh, a significant feature noticed was the vast disparity between districts. A large part of the assistance from the Corporation went to the districts which were already industrially advanced. Out of the total loans amounting to Rs. 339.25 lakhs to small-scale industries loans amounting to 150.32 lakhs went to Indore district, Rs. 40.85 lakhs to Shhopal, Rs. 13.92 lakhs to Raipur district, Rs. 12.07 Lakhs to Gwalior district, Rs. 10.72 lakhs to Ujjain district, Rs. 10.54 lakhs to Satna district, and Rs. 9.97 lakhs to Jabalpur district. Thus the Indore district alone accounted for nearly half of the total assistance given by the Corporation to small-scale industries. The seven districts named above receive a total financial assistance of Rs. 248.39 lakhs which works out to
nearly 74% of the total loans advanced to small-scale industries. It is significant to note that out of these seven districts the six districts were those at the headquarters of which the Corporation had got its main or branch offices.

Thus the remaining 38 districts received the remaining 26% of the loan assistance to small-scale industries. There were districts like Panna, Rajnandgaon, Bastar, Sarguja, Shahdol and Sidhi where no loans at all were given to small-scale industries by the Corporation. There were many other districts like Jhabua, Shivpuri, Guna, Datia, Sehore, Raiganj, Betul, Mandla, Seoni, Chhindwara, and Raigare where the total assistance to small-scale industries by the Corporation was less than 1 lakh. (See Appendix 'C').

Considered regionwise the Indore Division alone receive loans worth 190.40 lakhs rupees and Bhopal 54.44 lakhs rupees, Gwalior ranked third with 36.26 lakhs. Thus these three divisions constituting the western region of the State receive loans amounting to 272.10 lakhs which accounted for nearly 80% of the total assistance given to small-scale industries in the State by the Corporation.

The assistance given by the Corporation to small-scale industries could also be classified according to the forms of organisation receiving the assistance. Nearly half of the loans advanced were given to Partnership Firms. Private Limited companies accounted for roughly 4th of the loans and the proprietary concerns accounted for another nearly 1/5th of the loans. In contrast to this in the case of medium and large scale industries the public and private limited companies dominated the scene and accounted for nearly 60% of the loan assistance given to such industries. The following table gives the details of the loan assistance given to various forms of small-scale and other organisations.
### Table 13
**Madhya Pradesh Financial Corporation, Indore**


<table>
<thead>
<tr>
<th>Constitution of Industrial Concerns</th>
<th>Limits Sanctioned</th>
<th>Limits Utilised</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>(I) SMALL SCALE UNITS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Companies</td>
<td>3</td>
<td>10.00</td>
<td>2</td>
</tr>
<tr>
<td>Private Companies</td>
<td>39</td>
<td>88.24</td>
<td>39</td>
</tr>
<tr>
<td>Cooperative Societies</td>
<td>4</td>
<td>3.64</td>
<td>4</td>
</tr>
<tr>
<td>Partnership Concerns</td>
<td>188</td>
<td>230.94</td>
<td>174</td>
</tr>
<tr>
<td>Joint Hindu Family</td>
<td>22</td>
<td>11.94</td>
<td>21</td>
</tr>
<tr>
<td>Proprietary concerns</td>
<td>138</td>
<td>88.14</td>
<td>117</td>
</tr>
<tr>
<td>Trusts</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>391</td>
<td>432.90</td>
<td>357</td>
</tr>
</tbody>
</table>

(II) UNITS OTHER THAN SMALL-SCALE:

|                                    |        |                  |        |                   |        |                 |
| Public Companies                    | 37   | 372.55           | 34    | 320.16            | 25    | 240.86           |
| Private Companies                   | 41   | 207.46           | 38    | 184.96            | 31    | 109.54           |
| Cooperative Societies               | 2    | 40.00            | 2     | 40.00             | 2     | 37.69            |
| Partnership Concerns                | 26   | 103.09           | 24    | 93.87             | 19    | 58.78            |
| Joint Hindu Family                  | 8    | 25.27            | 8     | 25.27             | 6     | 10.64            |
| Proprietary concerns                | 16   | 32.15            | 16    | 31.55             | 13    | 17.52            |
| Trusts                              | -    | -                | -     | -                 | -     | -                |
| **Total:**                          | 130  | 785.52           | 122   | 695.81            | 96    | 475.03           |

**Grand Total:**                      | 521  | 1,218.42         | 479   | 1,035.06          | 384   | 725.58           |
(III) **STATE BANK OF INDIA.**

The State Bank of India operates a scheme of co-ordinated credit assistance to small-scale industries. For the sake of convenience the entire country has been divided into seven circles viz. Bengal, Madras, Bombay, Kanpur, Delhi, Ahmedabad, Hyderabad and in each circle some centres have been selected for intensive working of the scheme. The total number of such intensive centres is 58.

Under the scheme a small industrial unit need apply to only one agency for all its credit requirements instead of having to approach a number of agencies.

The entrepreneur can apply to the State Bank of India or the Co-operative Bank if his industry is organised on a co-operative basis. The local agency will receive and deal with the loan application and either dispose of it directly or forward it to the other appropriate agency or agencies which all act as complimentary to each other. The credit facilities are extended to small-scale industries against pledge of raw materials and/or finished or semi-finished goods either under lock and key or factory type basis.

The State Bank also advances loans at all its branches under the Credit Guarantee Scheme No. II of the National Small Industries Corporation. Any industrial unit which conforms to the definition of a small industry and is enlisted with the National Small Industries Corporation can take advantage of this scheme. The salient feature of the scheme is that it meets the financial needs of the small scale units for executing the Government contract covering all stages of production from the purchase of raw materials to the discounting of bills. The credit facilities can be obtained against supply orders secured from any Central Government or State Government Agencies including public sector undertakings. The credit facility under the scheme covers the assistance to small units in the following forms:-
(a) A loan from the State Bank for the purchase of raw material.
(b) A cash credit account i.e. payment of advance against pledge of raw material.
(c) Overdraft against raw materials and components during the process of production.
(d) Advance against the Government bills duly presented to the Bank along with the inspection notes and the railway receipt, etc.
(e) Opening the letter of credit on behalf of the clients to pay to the supplier from whom the clients purchase raw material.
(f) The insurance of Bank Guarantee to the supplier of raw material against the purchases made by the manufacturing client or direct payment to the supplier of raw material.

NEW SCHEME OF STATE BANK OF INDIA.

In addition to this, State Bank of India operates another scheme for financing craftsmen and other technically qualified entrepreneurs desirous of setting up small-scale industrial projects. Eligibility under this new scheme is linked to personal attributes like character and integrity, requisite know how as well as managerial and technical ability and not to monetary standing only. Loans and advances would be granted to eligible applicants for setting up projects in Industrial Estates as well as for running of the units, after they commence production. Persons who already own a factory wholly or partially will not be considered. To start with the scheme will cover only such projects as require total financial assistance of Rs. 1 lakh or less. Financial assistance may cover more than one type of financing; Installment credit for the purchase of machinery/equipment for a period of 2-7 years by making a down cash payment of 20-25 percent of the cost of equipment, medium term loan for a period of 3-10 years at the rate of 9 percent per annum for financing long term working capital and the owners' equity and cash credit or Demand Loan for catering to the short-term working capital requirements. Generally speaking the projects should conform to the banks' order of priorities under which defence and export
oriented industries, those resulting in saving of foreign
exchange, consumer industries based on indigenous raw materials
and industries which provide a basis for agricultural development
and further industrialization are given preference.

FINANCIAL ASSISTANCE TO SMALL-SCALE INDUSTRIES BY
THE STATE BANK OF INDIA IN MADHYA PRADESH.

In Madhya Pradesh the assistance provided by the State
Bank of India is co-ordinated and regulated by the Regional office
of the Bank at Shapol. The applications are received and processed
through the branches of the State Bank of India spread all over
the State. The State Bank has got 1,27 branches and 42 sub-offices
in the State. Many of them are located in rural areas. Thus the
State Bank has the advantage of reaching the small-scale industri-
alists in far out places also. The State Bank has got one more
advantage and it is that it has already got contacts with thousands
and thousands people who have their accounts with the Bank and
therefore, they could easily approach the Bank for loans and the Bank
had lesser difficulty in asessing their credit-worthiness. The Bank
has also appointed a fixed field staff to assess the viability of
the proposals for establishment of industries received by it.

The State Bank has in a very short period gained a prominent
position in the matter of financial assistance to small-scale
industries in the State. This will be evident from the following
table which gives the figures regarding loans advanced by the State
Bank of India to small-scale industries during the three years

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of small scale units</th>
<th>Limits sanctioned (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1,023</td>
<td>5,63,61,000</td>
</tr>
<tr>
<td>1971</td>
<td>815</td>
<td>4,49,82,000</td>
</tr>
<tr>
<td>1972</td>
<td>913</td>
<td>4,74,10,000</td>
</tr>
</tbody>
</table>

**Source:** Regional office of the State Bank of India, Shapol.
From the above it is clear that State Bank of India, as an institution of financial assistance to small-scale industries, has in a very short period granted much larger assistance than the financial assistance provided by the Madhya Pradesh State Financial Corporation. One of the reasons could be the fact that the State Bank has its offices and branches in smaller places while the State Financial Corporation has its offices confined to six large cities of the State.

(IV) COMMERCIAL BANKS.

The commercial banks are also playing an increasingly important role in providing financial assistance to the small scale industries. One of the principal features of lending by the commercial banks in the past has been that credit was allowed only against pledging of goods. For this reason only those who had valuable goods to offer for pledging could take advantage of the bank credit. This excluded the needy small industrialists and farmers from getting assistance from the banks. However, a shift in the lending policy was noticeable even before the nationalisation of 14 major commercial banks. Commercial banks had already started advancing loans on personal credit. One of the major objectives of the nationalisation of the principal commercial banks was to make credit available to those sections who had little or no security to offer but who had viable projects to implement with the financial assistance from the banks. The nationalised banks have now been working in this direction. For every district a lead bank has been appointed and it is the responsibility of this lead bank to make a survey of the various fields where bank credit could be usefully utilised. The Commercial banks have been expanding their branches into smaller towns and villages with a view to reach closer to those who need financial assistance. These banks have framed schemes to provide financial assistance to those educated and technical persons who have projects of small industries for their self-employment.

Thus the commercial banks have made a beginning in the sphere of financing small-scale industries. It is still not possible
to assess the importance of the role played by the Commercial banks in providing financial assistance to small-scale industries in the State. However, the potentialities of bank credit to small industries are immense and in times to come the commercial banks are likely to play a crucial role in this sphere.

(V) SPECIAL SCHEMES FOR BACKWARD AREAS OF THE STATE.

With a view to encourage industrial development in backward areas the State Government has formulated some special schemes of financial assistance. There are six backward areas in the State recognised by the Planning Commission. These areas cover 34 districts either in full or part. The backward area of the State are shown in the map given herewith. A list of the Development Blocks included in the 6 backward areas is given in the Appendix 'D'.

The concessions granted in the matter of financial assistance to industries in backward areas are as follows:

(1) **BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA:**

The Industrial Development Bank of India charges interest on loans in backward areas at 1½ less than the rate charged in other areas. The first repayment starts after 5 years while in other areas it starts after 3 years. The period of repayment ordinarily allowed by the bank is 10 to 15 years but in the case of backward areas the period of repayment is extended to 15 to 20 years.

(11) **BY INDUSTRIAL FINANCE CORPORATION OF INDIA:**

As in the case of Industrial Development Bank the Industrial Finance Corporation of India also charges interest at a rate 1½ less than its normal rate of interest. A rebate of ½ percent is allowed on prompt repayments. The repayment starts after 5 years while normally it starts after 3 years. The period of repayment has been extended from 10 to 12 years, to 15 to 20 years in the case of backward areas. The margin in the case of backward areas is also reduced from 50% to between 30% and 35%.
(III) FROM MADHYA PRADESH AUODYOGIK VIKAS NIGAM :

With effect from May 1st, 1971 the Madhya Pradesh Auodyogik Vikas Nigam is operating a special scheme of financial assistance to industrial projects in backward areas. Instead of a normal rate of interest of 9% the Nigam charges a concessional rate of 8% with a rebate of 1% for timely payment. In backward areas it provides financial assistance upto 40% of the capital cost of the project while in other cases this percentage is only 35.

CAPITAL SUBSIDY.

The State Government grants a special capital subsidy of 10% of capital investment in industries. In six approved backward areas of the State, entrepreneurs who set up industries in these backward areas get 10% of capital investment as subsidy if the investment does not exceed ₹ 50 lakhs. The cases of units having investment over ₹ 50 lakhs are decided on merits. The scheme has been in operation since August 26th, 1971 and in the first instance this subsidy was made available to the industries who got themselves registered with the Directorate of Industries, Madhya Pradesh, Bhopal before May 31st, 1973 for this purpose. The subsidy is granted by the State Government under a scheme of the Government of India. The Government of India were contemplating to increase the percentage of subsidy to 15% and raising the the eligibility limit to ₹ 1 crore.

INTEREST SUBSIDY.

In the case of backward districts the State Government is also subsidising at the rate of 2% interest on the loans obtained from State Financial Corporation or nationalised banks for small industries. If the entrepreneur is a Harijan or Adivasi the rate of interest subsidy is 4%. The subsidy is granted for a period of 3 years.

(VI) CREDIT GUARANTEE SCHEME.

THE RESERVE BANK OF INDIA: As an agent of the Government of India, the Reserve Bank of India is operating a Credit Guarantee Scheme.
This scheme is drawn up in such a way that the financial institutions advancing short term or long term loans to small scale units will be able to recoup part of the losses, if any, from the Reserve Bank. The amount actually so recovered varies according to a sliding scale. This scheme has given incentive to the Commercial Banks and State Financial Corporations to advance loans in a big way to small scale units.

The Credit Guarantee Scheme was put into operation in July, 1960 in certain selected areas and it now extends to the entire country.

NATIONAL SMALL INDUSTRIES CORPORATION - GUARANTEE SCHEME :-

The State Bank is also operating, in collaboration with the National Small Industries Corporation (NSIC), a guarantee scheme whereby a small scale unit obtaining an order to supply goods to the Government is given required financial assistance to buy raw materials, process it into finished goods and deliver them to the Government. The State Bank provides full finance required for the purpose. This scheme is intended to facilitate the speedy execution of Government orders.

The institutions/agencies created to provide credit facilities to small scale sector all came into operation during the Second Five Year Plan and were able to meet the requirements at that time. However, a recent review of the whole position has disclosed that the total credit facilities available to small scale sector fall short of their needs and are not commensurate with the contribution of this sector to the total gross industrial output in the country. It is also found that the small scale sector has not benefitted from Government contributions to institutional agencies to the same extent as similar institutional agencies created for the benefit of the medium and large scale sector of industry by way of grant of interest free long term loans, low interest bearing loans, foreign exchange loans, etc. Besides, it was also recognised that the small scale sector in our country has not received the type of support from Government sources that this sector has received in recent times in other developing and developed countries.
Fiscal measures for promotion of industries have since long been used in all the countries. Protection of domestic industries from competition from foreign industries through high tariffs on imported products has been a very common feature of fiscal policy in many countries. Subsidies have also been used as a means of promoting domestic industries.

With the recognition of the necessity for development of small-scale industries many positive measures have been taken to encourage their development. In spite of the direct measures taken the fact remains that the small-scale industries at least in the initial stages find it difficult to withstand competition from large and established industries. Similarly the industries set up in the relatively backward areas are also in a disadvantageous position as compared to those established in already developed areas.

In view of the weaker competitive position of the small scale industries and industries set up in backward areas tax concessions have been considered necessary to encourage the development of these industries. Such tax concessions are granted by the State Government mainly in respect of:

(I) Sales Tax.

(II) Octroi.

(I) **SALES TAX CONCESSIONS**:

According to the existing provisions the sales tax concessions are divided into three parts; (i) Sales tax concessions to new units, (ii) Sales tax concessions to existing units for establishing new units, (iii) Sale tax concessions for expansions.

Sales tax concessions to new units are given in the backward districts of the State. For this purpose the backward districts have divided into three categories 'A', 'B', & 'C'.

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1. Categorywise list of backward areas is given under Chapter IV "Resources and Industrial Development in Madhya Pradesh: A General Survey, page-86."
The concession is granted in the form of a sales tax subsidy. In the category 'A' backward districts the industrial units having a fixed capital investment upto Rs. 50 lakhs will be entitled to a subsidy equal to 75% of the sales tax paid in a year for a period of 5 years from the date of starting production.

In the case of the category 'B' and 'C' districts the new industrial units having a capital investment upto Rs. 50 lakhs are entitled to a subsidy equal to 100% of the sales tax paid for a period of 5 years from the date of starting production. Thus in other words they do not pay any sales tax for a period of 5 years from the date of starting production.

Thus the above sales tax provisions are definitely favourable to small units having capital investment upto Rs. 50 lakhs. Larger units having capital investment upto Rs. 5 crores get an equal amount not as a subsidy but as an interest free loan for a period of 15 years. The maximum amount of sales tax subsidy (or interest free loan in case of larger units) is limited to 8% of the capital investment in the case of industries in category 'A' backward district. The limits in the case of category 'B' and category 'C' districts are 12% and 20% of the capital investment respectively.

**SALES TAX CONCESSIONS TO EXISTING UNITS:**

The existing units can get sales tax concessions if they establish new units or carry out a substantial expansion of their existing units. For the establishments of new units the existing units get the following concessions in sales tax:

**In Category 'A' Backward Districts:** A 15 years interest free loan equal to 75% of the sales tax paid during the last 3 years subject to a maximum of 24% of the fixed capital investment of the existing units.

**In Category 'B' Backward Districts:** A 15 years interest free loan equal to 100% of the sales tax paid during the last 3 years subject to condition that it does not exceed 36% of the fixed capital investment of the existing units.
In Category 'C' Backward Districts:— A 15 years interest free loan equal to 100% of the sales tax paid during the last 3 years.

In all above cases the interest free loan is subject to the following conditions:

(i) that in the new unit the fixed assets created are equal to four times the quantum of loans given to it, and
(ii) it is encumbant on the existing units to itself invest in the new units an amount which is not less than the interest free loan granted to it, and
(iii) the concessions shall also be available if 2 or more existing units jointly want to establish a new unit in the State.

The existing units also get tax concessions if they carry out substantial expansions. In the case of the units whose fixed assets do not exceed the tax concessions is in the form of subsidy, while in the case of units having a fixed assets over 50 lakhs but less than 5 crores the amount is given as a 15 year interest free loan. For qualifying for this concession the industrial unit must expand by increasing its plant and machinery by atleast 33% of the present investment in fixed assets. In the case of category 'A' Backward Districts the subsidy/loan is given for 3 years equal to 75% of the extra sales tax paid on account of expansion. In the case of category 'B' and 'C' Backward Districts the concessions is given of an amount equal to 100% of the extra sales tax paid. The extra sales tax paid is worked out by finding out the same proportion of the total sales tax as the increased capacity bears to the 90% of the total installed capacity.

From the above discussion of the sales tax concessions it is evident that they are in fact, a form of financial assistance. In the case of smaller units it is by way of subsidy and in the case of larger units it is by way of a interest free loan. As this assistance is linked with the amount of sales tax and the sales tax in turn depends on the turnover, this financial assistance is directly linked with the turn over during the initial years of expansion of existing units or establishment of a new unit. This is, therefore, a substantial incentive for the new units to achieve
maximum possible production and sales from the very beginning. A disadvantageous feature of this tax concession is that the new units which find it difficult to push up sales in the beginning and whose need for assistance, is therefore, greater do not get substantial assistance in this form.

CONcessions in octroi.

Octroi is a local tax being collected on goods brought into local area of a Municipality for consumption, use or sale therein. It has been a traditional source of local revenue. However, it has from the very beginning been looked upon as a tax which acts as a hindrance in the way of progress. Sir Joshua Stamp described it in the following words:

"In my judgement, both theoretical and on the result of experience, no country can be progressive that relies to any extent, upon octroi which has nearly every vice." ¹

The Octroi adversely affects the competitive position of an industry specially, if the raw materials for it are brought from outside the Municipal limits. In their eagerness to earn income from Octroi the Municipalities can not afford to kill the industries on which economic betterment and livelihood of the resident of the town depends. In the past the Municipalities have been making suitable arrangements in the octroi system to remove the difficulties of the industries located in the Municipal Area. The Bidi Industry in Madhya Pradesh may be cited as an example. Bidi manufacturing which is the principal industry of many towns in Madhya Pradesh depends on tobacco brought from Gujarat. The Municipalities have been levying octroi on the tobacco brought in for Bidi making but when bidies are exported outside the town an octroi refund on the tobacco contents of the bidies was being granted. This scheme of octroi concessions to the industry was not convenient because it involved collection and refund of octroi.

A more direct method of octroi concession was introduced by the Gwalior Municipality in the year 1957. Realisation of Octroi from industrial concerns in the industrial area was suspended on getting a permanent deposit of Rs. 20,000 each from the various industries. However, this concession was withdrawn in 1961.

Recently, the State Government has taken interest in the matter and octroi concessions are being granted to industries set-up in the municipal areas. The concession is available to the new industrial units and for the substantial expansion of existing industries. Plant and machinery brought in by an industrial unit in the municipal area are exempted from payment of octroi. Building materials and raw materials required by industrial unit for a period of 5 years from the date of going into production are also exempted from the payment of octroi.

With a view to encourage cottage industries the octroi schedules of the Municipalities has been so drawn up that the products of such industries are exempted from payment of octroi.

As has already been stated octroi is a bad tax and hinders the development of industries. However, it has not been found possible to do away with this tax. The concessions granted particularly in the matter of raw materials are only for a limited period. The octroi payable thereafter will definitely operate to the disadvantage of the industries located in the municipal area. So long as it is not possible to completely abolish of octroi proposal regarding establishment of octroi free industrial areas in the towns is worth consideration. This will particularly benefit the industries which depend on raw materials brought from outside the town and whose products find market in places other than the town itself.