CHAPTER III.

NATURE AND FORMS OF ASSISTANCE

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It is now recognised that States have to pay an important and direct role in the development of industries. State assistance is vital for the development of both large and small-scale industries. However, the problem of assistance to small-scale industries is more complex and diversified. Perhaps financial help and protection are two major measures which State could adopt to help large scale industries in the country to grow. But in the case of small-scale industries financial needs are only one aspect of the problem. State assistance is required for improving the external environment and internal organisation of a small-scale industries. Finance and credit facilities, tax concessions, technical assistance, common service facilities protection from competition with larger units are some of the forms of state assistance to improve the external environment. The State's efforts towards management appreciation, training of workers, organisation of co-operatives are some of the steps to improve the internal organisation and productivity in the small-scale enterprises.

Besides the departmental assistance various other agencies for assistance to industries have been set up by the Union as well as State Governments. The assistance provided by the State and its various agencies could be divided into two parts:

(A) Financial Assistance.
(B) Non-Financial Assistance.

(A) FINANCIAL ASSISTANCE.

Finance is regarded as the life-blood of any industrial unit. India has been termed as a country of shy capital. Hence non-availability of credit on adequate terms is a major problem for industries. Even the large scale industries are faced with the problem of shortage of capital. The Managing Agency System where managing agents' principal role was to arrange adequate
finance was born because of the fact that channels of finance were restricted and mostly dependent on personal reputation, credit and contacts of the Managing Agents. The Commercial banks in the country confined their activities to a very short term credit which was suitable more for trade and did not meet the requirements of industries which required funds committed for a longer period. Industrial Financing institutions were practically non-existent in the country till independence.

After the independence of the country the problem of industrial finance received the attention of the Government and some institutions were set up to provide finances to the industries. The Industrial Finance Corporation was set up in 1948. The object of this Corporation was to provide long-term and medium-term finance for the industries. Another important institution set-up to provide financial assistance to industries is the National Industrial Development Corporation. This Corporation was established in 1954 with the object of assisting the industries particularly those engaged in the production of capital goods.

Industrial Credit and Investment Corporation was established in 1955 with the object of encouraging promotion of new industries and expansion and modernization of existing industries. Yet another institution for financial assistance was established in 1958 and it was called Industrial Refinance Corporation. As is evident from its name this Corporation does not provide any direct financial assistance to the industries. It provides re-financing facilities to those institutions and banks which assist the industries by providing loans and purchasing securities of the industrial companies.

The Reserve Bank of India has also set up a subsidiary for providing credit facilities to the industries. This Institution, namely the Industrial Development Bank came into existence in 1964. This institution with vast resources provides financial
assistance to manufacturing, mining, shipping, transport, and hotel industries.

In 1964 another important institution came into being and this was the Unit Trust of India. This Trust was established with the object of pooling together the savings of small investors so that investments could be made in various Corporate Securities without any substantial risk of loss to such small investors. Besides investment the Unit Trust of India also undertakes to underwrite the new issues of new or existing companies.

The Life Insurance Corporation has also been playing an important role as a investor in corporate securities and as a underwriter of issues of company securities.

All the above Institutions are All India institutions and by the very nature of their vast field of operation and according to the functions assigned to them they have to confine their activities of financial assistance to large-scale industries only. Hence their still remained the necessity of institutions which could financially assist small industries.

The Small-scale industries were in a worse position as far as credit facilities are concerned. They were mostly owned by persons with lesser resources and many of them were located in small towns and villages where modern credit institutions did not exist. In these circumstances small industrialists fell an easy prey to unsuspicious moneylenders or were exploited by middlemen, who purchase their products at a very low price.

Any institution catering to the financial needs of small-scale industries had to be an institution with a smaller area of operation so that it could reach the interior villages and smaller towns. In 1951 the State Financial Corporations Act was passed which provided for the establishment of Financial Corporations at the State Level. This Corporation was particularly meant to meet the financial requirements of the small industries. Under such Act a Financial Corporation called "The Madhya Bharat Financial Corporation was set-up in 1955 by the then Government of Madhya Bharat. After the re-organisation of States in 1956 the area of operation of the Madhya Bharat state Financial Corporation
was extended to the whole of the new State of Madhya Pradesh and it was renamed as "Madhya Pradesh Financial Corporation. The objective of this corporation is to give financial assistance to existing and potential industries by providing medium and long term credit.

Another important State level institution for industrial finance is Madhya Pradesh Audyogik Vikas Nigam Ltd. This Corporation has been established with the particular object of assisting new industrial ventures of large and medium scale from start to finish. Besides financial assistance this Corporation helps in preparation of feasibility report, processing of applications for licences and obtaining indigenous and imported capital goods. It also underwrites share issues and advances long term loans. The Madhya Pradesh Audyogik Vikas Nigam helps mainly large and medium industries and therefore it has no importance as far as small scale industries are concerned.

As has already been stated the small scale and cottage industries are located in many small towns and villages and it is not possible for any financial institution to reach them easily without incurring huge losses. Hence inspite of the establishment of the specialised agencies for providing finance, the role of direct departmental assistance continues to be vital and important.

State Aid to Industries Act was adopted with the object of providing finance in the form of loans, guarantees for loans and subscription to shares and debentures etc. The State Government has been advancing loans through its departments upto Rs. 5,000 against personal security and above Rs. 5,000 against the security of fixed assets and stock. The State Government having an administrative set-up spread right up to every village is in a better position to assess financial requirements and administer the advancing and recovery of loans.

Another heartening feature for small scale industries is the attention that the State Bank of India and other nationalised Commercial Banks are now paying to their financial needs.
The State Bank of India operates a scheme of co-ordinated credit assistance to small-scale industries. Under this co-ordinated scheme an entrepreneur has to apply to only one agency for all its credit requirements. Such applications can be made either to the State Bank of India or to the Cooperative Bank in case the industry is organised on a co-operative basis. The State Bank of India also has a credit Guarantee Scheme, under which credit is allowed to small-scale industries against the Government Contracts that they receive through the National Small Industries Corporation. Recently, the State Bank has started a new scheme of financing craftsmen and other technically qualified entrepreneurs desirous of setting up small-scale industrial projects. This scheme is a departure from the traditional credit policies which took into account only the financial standing of a person. Under this new scheme the personal attributes like character and integrity, possession of know-how and managerial and technical competence are the principal considerations.

Other Nationalised Commercial Banks have also been assigned the task of advancing personal industrial credit after studying the viability of the projects submitted to them. Under the Lead Bank Scheme for every district a Lead Bank has been named and this bank has been assigned the task of making a survey of the district with a view to explore the possibilities of financial assistance to existing and potential industries in the district.

**NON-FINANCIAL ASSISTANCE**

Besides financial help assistance in many other forms is extended to industries by the Union and the State Governments and by the specialised agencies set-up for the purpose. In a developing country mere financial assistance cannot initiate a growth of industries unless it is backed by adequate measures for providing facilities and services necessary for industrial development. Non-financial assistance extended to the industries may be classified under the following broad categories:

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(i) Providing suitable land and accommodation.
(ii) Providing Water and Power.
(iii) Making available Plants and Equipments.
(iv) Making available stores and other materials.
(v) Technical assistance and common service facilities.
(vi) Marketing assistance.
(vii) Managerial and Technical training.
(viii) Tax concessions and protection.
(ix) Export Promotion.

The Government departments and specialised agencies have been set-up to provide the above assistance to the industries. At the Central level there are two important organisations which provide various kinds of assistance to small-scale industries. These are Small Scale Industries Development Organisation and the The National Small Industries Corporation Ltd. The nature and form of assistance provided by these two organisations are as follows:

SMALL-SCALE INDUSTRIES DEVELOPMENT ORGANISATION
(The Small Industries Service Institutes and Extension centres)\(^1\)

The main activities of this organisation are:

(1) Feasibility and Development:
   (i) Conducting economic surveys in specific industries, products and areas, and making concrete recommendations for a development programme.
   (ii) Carrying out feasibility studies for specific industry or products to determine production size for optimising profits.

(2) Technical Assistance:
   (i) Advising small units on improved technical processes and use of modern machinery and equipment.
   (ii) Demonstrating the use of such modern technical processes through workshops in Extension Services Centres and also through small mobile workshops mounted on trucks for rural artisans.

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\(^1\) Sources of assistance, Development Commissioner (Pamphlet)
(iii) Conducting in-plant studies of individual units and suggesting measures for efficient operation and streamlining of production system through proper lay-out of plant and machinery, smooth flow of raw materials, etc. resulting ultimately in cost reduction and increased production.

(iv) Carrying on research on questions like proper use of raw materials, improved designs of machinery, conducting special studies on different economic aspects of small industries development, etc.

3) **Marketing Assistance:**

   (i) Undertaking distribution aid surveys with a view to assisting small manufacturers in determining measure distribution centres for their products, establishing contacts with important wholesale and retail dealers and obtaining dealers' and consumers' reaction to price, quality, design etc. of products.

4) **Economic Information Service:**

   (i) Acting as an information centre—bringing out bulletins, pamphlets, model schemes and answering enquiries for economic and commercial information.

5) **Managerial Assistance:**

   (i) Instructing small industrialists in proper methods of business management, including marketing, financial accounting, cost accounting, factory legislation, personal relations, etc.

6) **Training:**

   (i) Conducting training classes and courses like
   (a) Shop practice, (machine-shop practice, tool room practice, foundry practice, blacksmith and forging shop practice, electrical and carpentry shop practice),
   (b) Trade-oriented courses (tool making, fitter, machinist, sheet-metal working, carpentry, and pattern making),
Process-oriented courses (heat treatment, electric and gas welding, leather tanning and finishing, fruit and vegetable preservation, electro-plating and anodising), (d) Product-oriented courses (footwear and allied products, lens grinding, paints and varnishes, glass beads), (e) Blueprint reading, and (f) Ad-hoc courses.

**THE NATIONAL SMALL INDUSTRIES CORPORATION LTD.**

The main activities of this Corporation are:

1. **Equipment:**
   - Supply of Machines on hire-purchase basis.

2. **Supply of Materials:**
   - Distribution of raw materials at Delhi to small-scale industries.

3. **Marketing:**
   - Assistance to small scale units to participate in increasing measure in the Stores Purchase Programme of the Central Government.
   - Distribution of Radio valves manufactured by M/s Bharat Electronics Ltd.,
   - Marketing of machine tools manufactured by Prototype Production and Training centres at Rajkot, Howrah, and Okhla and the Government of India Production Centres at Etah and Thiruvalla.

4. **Training:**
   - Running of three Proto-type Production and Training centres at Delhi, Rajkot, and Howrah for
     - Training of technicians and supervisory personnel for small industries,
     - Design and development of machines suitable for small industries, and
     - Rendering technical services to industries in their production programmes.

At the State level non-financial assistance is made available by the Directorate of Industries. An autonomous Corporation called the Madhya Pradesh Laghu Udyog Nigam Ltd., has also been set-up to provide various types of assistance. The details of the
assistance provided by these State level agencies are as under:

**DIRECTORATE OF INDUSTRIES MADHYA PRADESH, Bhopal**

**Assistance Rendered:**

(i) Supply of raw materials, electric power, transport facilities.

(ii) Allotment of plots in industrial areas.

(iii) Providing accommodation in Industrial Estates.

(iv) Grant of essentiality certificates for import licences, raw materials, components, etc.

(v) Training facilities.

(vi) Assistance in the organisation of co-operatives.

**THE MADHYA PRADESH LODHI UDYOG Nigam LTD.**

The main activities of this Nigam are:

(i) Procurement and distribution of imported and indigenous sources raw materials.

(ii) Running of training-cum-production centres.

(iii) Supply of machinery on hire-purchase basis.

(iv) Constructions of industrial sheds and development of new industrial areas.

(v) Assistance to small enterprises in marketing their products (including supply of stores to Government).

(vi) Running of sales emporia for marketing products of small scale and village industries.

(vii) Participation in the capital of small-scale units, establishment and running of panchayat industries, collection of data, conducting feasibility surveys, etc.

(viii) Export assistance.

Besides the agencies set-up for assistance to small-scale industries in general it was felt that handicrafts and village industries require a separate agency for their development.
In 1952 an All-India Handicrafts Board was set up and in 1968 Indian Handicrafts Development Corporation was set up. These organisations assist in the production and sale of the various handicrafts in the country and abroad. They organise exhibitions and display through mobile vans.

For the development of Khadi and village industries a Khadi and Village Industries Commission has been set up. This Commission provides financial and other assistance for the production and popularising of Khadi and products of village industries. In Madhya Pradesh, Madhya Pradesh Khadi and Village Industries Act was passed in 1959 and a Khadi and Village Industries Board has been set-up under this Act. The Board has been assigned the following functions under the Act:

(a) to start, encourage, assist and carry on khadi and village industries and to carry on trade or business in such industries and in the matters incidental to such trade or business;

(b) to help the people by providing them with work in their homes and give them monetary help;

(c) to encourage establishment of co-operative societies for khadi and village industries;

(d) to conduct training centres and to train people thereto or to arrange for such training at any other institution within or outside the State of Madhya Pradesh with a view to equipping them with the necessary knowledge for starting or carrying on khadi or any village industry;

(e) (i) to manufacture tools and implements required for carrying on khadi and village industries and to manufacture the products of such industries;

(ii) to arrange for the supply of raw materials and tools and equipments required for the said purpose; and

\[1\] Section 14 of the M.P. Khadi and Village Industries Act, 1959.
(iii) to sell and to arrange for the sale of the products of the said industries;

(f) to arrange for publicity and popularisation of finished products of khadi and village industries by opening stores, shops, emporia or exhibitions and to take suitable measures for the purpose;

(g) to endeavour, to educate public opinion in favour of such industries and to impress upon the public the advantages of patronising products thereof;

(h) to seek and obtain advice and guidance of experts in khadi and village industries;

(i) to undertake surveys, collect statistics and to undertake all work incidental to the proper planning of khadi and village industries;

(j) to participate in regional and all-India meetings, conferences or exhibitions of khadi and village industries and to organise such meetings, conferences or exhibitions in the State;

(k) to undertake and encourage research work in connection with khadi and village industries;

(l) to carry on such other activities as are incidental and conducive to the objects of this Act; and

(m) to discharge such other duties and to perform such other functions as the State Government may direct for the purpose of carrying out the objects of this Act.

The funds for the various activities of the Board are provided by way of grants and donations by the State Government and local authorities. Board also accepts donations from other associations and individuals. With the previous sanction of State Government the Khadi and Village Industries Board may also borrow money on such conditions as may be specified by the State Government.
TAX CONCESSIONS AND SUBSIDIES

Besides the various kinds of assistance discussed in the foregoing paragraphs of this chapter the State Government also helps the small-scale and cottage industries through tax concessions and subsidies. Tax concessions are granted mainly in respect of excise, sales tax and octroi. The State Government also helps the small-scale industries by reserving the production of particular goods for the small-scale sector only. In the case of scarce raw materials as for example Iron and Steel and Cotton yarn a particular proportion is reserved for supply to small-scale industries only.