CHAPTER IX.

SUMMARY

AND

RECOMMENDATIONS.
CHAPTER IX.
SUMMARY AND RECOMMENDATIONS.

THEORY OF RURAL INDUSTRIALISATION.

The theory of rural industrialisation in India is based upon the Gandhian Philosophy for solving the unemployment problem through introduction of more labour intensive techniques in industries. The Village Industries Commission have suggested that the worker should be his own master either as an independent artisan or as member of a self governing cooperative which would go a long way for achieving full employment. In addition to growth of employment and bridging up the gap of regional imbalance, rural industrialisation plays a complementary role to large scale industrialisation. It strengthens the process of democratic decentralisation and creates an industrial
awareness in rural areas. Two schemes of rural industrialisation, viz. Rural Industries Projects (R.I.P.) and Panchayat Samiti Industries Programme (P.S.I.P.), one was centrally sponsored scheme by the Government of India and the other as a State sponsored Scheme, were introduced in the State. The Rural Industries Projects was introduced in 1962-63 and the Panchayat Samiti Industries Programme was conceived of in 1961. Therefore, Orissa is the first State in India to introduce rural industrialisation in the country on a large scale in the cooperative sector at the Panchayat levels. The entire scheme of Panchayat Samiti Industries Programme was based upon an integrated approach for each category of industry seeking coordination from governmental and financing agencies to make rural industrialisation a success in the State. This has been explained in detail in the Chapter.

ANALYSIS OF PANCHAYAT SAMITI INDUSTRIES.

In this Chapter a critical analysis of both the policies and implementation of the Panchayat Samiti Industries Programme from the point of view of economic feasibility, location, registration as cooperative organisations and schematic provision etc. of these units have been discussed. During the period under study, only 52% of the units commissioned were working as the mortality rate was very high.
Hardly 18% of the local people took initiative in the promotion of these units and the majority who had no stake in the shareholdings were Government officials. Though 67% of the units were situated by the side of the main roads, majority of the rest of the units were connected by pucca roads. 52% of these units are situated at a distance of less than 5 kms. from the nearest marketing centres. 73% of the units have stated that their location is correct. Some of the units have suggested that their units should have been situated at the district headquarters which are the main marketing centres for their products. It was stated earlier that the Panchayat Samiti Industries were formed as cooperative societies to justify the principle of participative management to exercise the right of 'one member one vote' as distinguished from joint stock companies where the voting right is based on the number of share holdings. As the objective was based on the principle of creating an enterpreneural base in rural industrialisation so that artisan or producer members could contribute towards the share capital in full and own these units during the course of time. Hence the idea of forming these units as cooperative societies was justified. But the analysis of the earlier chapters has revealed that the artisan or producer members did not evince interest to purchase more shares. The decision for setting up many of the
units at different locations was not proper as proper viability surveys were not conducted, as a result of which 43% of the units were either closed or are lying defunct.

**INDUSTRIAL MANAGEMENT.**

A cooperative industrial society is a form of democratic industrial organisation whose success largely depends upon the participation of its members in the affairs of management. Though majority of the Panchayat Samiti Industry units had held their annual general body meetings regularly during the period under study the participation of the members was hardly 32%. As the artisan members were generally illiterate and were not acquainted with the cooperative regulations, they were mainly interested in discussions about the benefits such as bonus, security of service, wage structures etc., but not about the improvement in the performance and management of these societies. The members of the Managing Committee were honorary, and amongst them 50% illiterate. 60% of the Presidents of these societies were generally of a political background. Hence they did not evince much interest to discuss about the management of these societies in the Managing Committee meetings.

The entire responsibility for efficient functioning of the industrial units vested with the Panchayat Industries Officers. They are Government officials functioning
willy nilly with a scanty pay, looking after finance, production and marketing aspects of the industrial cooperatives. Their frequent transfer is a handicap to efficiency in management. Rigid rules under cooperative Act and too much interference from the Government do not leave any room for flexibility in running the administration. The Panchayat Industries Officers do not get any incentive for good performance shown by them. Even the travelling expenses incurred by them for running the day to day business are not reimbursed for months and months together. The Panchayat Industries Officers need further training in modern management techniques. They are agreeable to spare their Accounts staff to undergo training in the maintenance of books of accounts in the proper manner but feel that they are above any training needed for efficient management.

The audit of the accounts of these Panchayat Samiti Industries are always in arrears ranging between 3 to 4 years. As a result, the Panchayat Industries Officers could not derive much utility from a postmortem scrutiny of their accounts. The quality of audit is not also satisfactory as the auditors of the cooperative department are neither qualified nor do they have much experience in the audit of manufacturing industries. Many defects have been observed from the Profit and Loss Accounts drawn up by these auditors which were dealt with in detail in Chapter No. IV.
The original scheme envisaged gradual transfer of all the shares of each unit to the artisan members so that they own these units during the course of time. But they have not evinced any interest in this regard to contribute more money towards share capital. The members of the Managing Committee have not shown any interest for the efficient management of these units. So, 90% of the Panchayat Industries Officers have favoured the idea of forming a Corporation by merging all these Panchayat Samiti Industries units and taking them out of the cooperative fold. This will help these units in converting their assets into equity and the Corporation can raise further financial resources to expand the business.

All the Panchayat Samiti Industries units have admitted that the spread of Panchayat Samiti Industries has created an industrial awareness in rural areas which was hitherto unknown to the rural folk in Orissa.

**PRODUCTION MANAGEMENT OF PANCHAYAT SAMITI INDUSTRIES.**

It is revealed that the Panchayat Samiti Industry units have utilised 35% of their installed capacity on the average. Indecision and lack of planning in commissioning the plant and machinery have resulted in idle capacity and loss of production. The agro processing group of industries have suffered most, due to their inability to
procure raw materials in the harvesting season mainly for want of adequate working capital. Forward planning for growing sufficient sugar cane or oil seeds and advancing money at the time of cultivation to farmers to buy other inputs of agriculture which was envisaged in the original scheme so as to make it obligatory on the part of cultivators to part with their produce at the time of harvesting time to these agro processing industries was not done during this period, as a result, these units had to suffer for want of raw materials. For want of working capital also these units could not procure timber or iron & steel in bulk to feed the Carpentry and Light Engineering units respectively. The integrated approach for marketing of tiles which was envisaged in the original scheme, by exchanging tiles for straw from cultivators to put up Straw Board units was lost sight of, as a result, the tile units could not market their tiles to poor villagers who did not have financial resources to make outright purchase of tiles. There has been a substantial drop in the utilisation of man days even though these units have been working for the last 13 years. Improper maintenance and inadequate technical assistance for the up keep of plant and machinery have contributed to the idle capacity of the units. The employment of 19 persons per Rs.1,00,000/- of investment in these units appears to be reasonable. But these units have not been able to provide employment to the expected level as they were not utilising their full capacity.
The location of some of the Light Engineering units was not based on economic consideration apart from the fact they are far from marketing areas.

**FINANCIAL MANAGEMENT OF PANCHAYAT SAMITI INDUSTRIES**

Effective utilisation of the financial resources entrusted to the management of an undertaking is judged by the efficiency of its administration. Keeping the cooperative structure of the Panchayat Samiti Industries in view, Government had envisaged that the Panchayat Industry Officer (P.I.O.) should make it conditional while enrolling members for the concerned unit that the local people must bear the share capital in full and the artisan members to pay up their share value in instalments and purchase more and more shares so that ultimately they own these units. But it is revealed from the study that the investment of the people themselves was hardly 2.5% of the total paid up capital. Financing by the nationalised commercial banks was only 23% of the total amount of loans. The units have expressed that the rules and formalities prescribed by the bankers are too rigid and beyond the reach of the units to avail themselves of loans, easily. Neither the borrowings from financing agencies were paid in time nor the interest charges were paid regularly. So the financing institutions could not repose confidence on these units to advance loans. In view of their
low profitability and cumulative losses, the liquid cash resources was very tight. Carpentry, Light Engineering and Tile units were doing better as they had accumulated an average reserve of 29% on share capital. Excessive blocking up of working capital in outstanding debts that too 40% of it remaining for more than one year, has put all these units in a vulnerable position. The outstanding dues against Government Departments are not promptly realised even after several directives and circulars to the various purchasing departments. To add to this excessive inventory has further reduced the liquid cash resources of these units. In the original scheme it was envisaged to provide for 30% as working capital as against which the Panchayat Samiti units have blocked 80% in 'inventory and outstanding debts' alone. If further working capital is not provided to the units, their working is likely to come to a standstill.

**PRODUCTION COST STRUCTURE AND MANAGEMENT RATIOS.**

From an analysis of the cost structure of the products manufactured by the Panchayat Samiti Industry units it is revealed that 87% of the total cost of production relates to direct cost and only 13% to indirect cost. Cost of Raw material alone forms 67% of the direct elements of cost on the average though in Light Engineering and Carpentry units this component
is about 75%. Cost of labour is within a limit of 18%.
From the element of total indirect cost though salaries of the staff represent 34%, the salaries of the Panchayat Industry Officers are not included in the Profit and Loss Accounts of these units as these are borne directly by the Government. With the exclusion of the salaries and allowances of the Panchayat Industry Officers from the establishment cost, true profit is not reflected in the annual financial statements. The total overhead component is 25% of the cost of production, which justifies the encouragement of small scale industries which gives a greater employment potential with a low capital investment. With the increase in cost of raw materials from time to time, the profitability of these units is declining as they are not able to utilise their full capacity. Current liabilities of Panchayat Samiti units are mounting up and a standard ratio of 2:1 of current assets to current liabilities is not being maintained, a situation which warrants careful attention of the management. The ratio of inventory to working capital (1.1:1) is very high, as a result of which the Panchayat Samiti units are not able to get liquid cash to run their day to day business. As against a reasonable norm of 60% the ratio of fixed assets to Net worth is 37%, which needs to be reviewed by the management. The debt equity ratio is 1:0.5 as against a reasonable norm of 1:1. In other words the Panchayat Samiti units can
obtain further finance against their share holdings. Though theoretically they have a good equity position they are unable to raise long term loans from financiers as they have a low profitability and the cumulative loss in their Balance sheets. This has probably detracted the Commercial Banks to risk their investment in the Panchayat Samiti units. The position of outstanding debts is also alarming as the bills are not realised before 5 to 6 months as against a reasonable credit limit of 30 days. As a result, the working capital turnover is very low when the bulk of it is blocked in inventory and outstanding debts. As the profitability is low the return on net worth or on working capital is far from satisfactory. The amount of capital of Rs.3/- per unit of income does not seem to be unreasonable.

MARKETING MANAGEMENT OF PANCHAYAT SAMITI INDUSTRIES.

It was envisaged in the original scheme of Panchayat Samiti Industries programme that the industries shall manufacture such types of products which will meet the primary needs of villagers in the rural areas. Instead the Carpentry and Light Engineering units have been concentrating on the Government departments. As a result, their dependence on Government departments for patronising their products,
increased day by day. To help the small scale industries, Government of Orissa introduced a major step by giving a price preference upto 15% on all government purchases of products from these small scale and Panchayat Samiti Industries in 1961. The State Purchasing Organisation (later renamed as Directorate of Export Promotion & Marketing) was set up to render marketing assistance and maintain coordination between the small scale industries and different departments of the Government. Therefore, Store Purchase Circulars were issued in 1963 which acted like 'Ban Orders' and helped the Panchayat Samiti Industries to market their products exclusively with the Government departments, as a result of which the turnover of the units increased six fold. In order to minimise competition from outside suppliers and to encourage further industrialisation in the small scale private sector including Panchayat Samiti Units the system of Store Purchase circulars was withdrawn and Rate Contract system was introduced to enable all small scale industries and Panchayat Samiti units to supply the requirements of different Government Departments at an agreed price to be determined by this Directorate for different products manufactured by them in the State. Majority of the Panchayat Samiti units have expressed that they are getting their raw materials from town areas or deliver their finished products in urban areas. A large number of units have expressed harassment meted out to them by some of the Government departments.
for passing their delivery challans or making payments in
time after taking delivery of the goods. As the Panchayat
Industry Officers do not have any discretion to entertain
or otherwise oblige the customers, they are experiencing
difficulties to run their business in a commercial manner.
With the introduction of Rate Contract system, the Pancha-
yat Samiti Industry units have been placed in the same
footing with that of the products of other small scale
entrepreneurs, as a result, their cost structure remaining
high, their profitability is declining. The delay caused
at the level of Directorate of Export Promotion & Market-
ing in fixation of rates of different products which are
manufactured by the Panchayat Samiti Industry units causes
hardship to them when they are required to compete with
other small scale industries. Majority of the units have
suggested for the continuance of 'Ban Orders' for a further
period of 10 years for their products. Many of the units
have suggested to diversify their production if additional
plant and equipments and working capital are provided to
them. 90% of the units have suggested for the formation of
a Central Marketing Organisation which would exclusively
deal with the marketing aspect of the Panchayat Samiti
Industry units so that they can mainly concentrate on produ-
cision.
FINDINGS OF THE STUDY,

1. This study has revealed that, the Panchayat Samiti Industries Programme has created an industrial awareness in rural areas. But it has not succeeded in creating entrepreneurship in as much as the artisan or producer members of the cooperative industrial units have considered themselves as employees of the industries only.

2. It has been revealed that, substantial employment has not been generated in rural areas from the rural industrialisation scheme as the full capacity of plant and machinery has not been utilised for reasons analysed in Chapter-V.

3. From the analysis of the financial position of the Panchayat Samiti Industries it is revealed that as the profitability of the units is very low. They have not been able to create substantial financial surplus, though some of the Carpentry and Light Engineering units are showing better performance.

4. The Panchayat Samiti Industries Programme has created a better economic infrastructure in rural areas. The rural industrialisation programme has provided electricity,
roads, industrial sheds and training for artisans etc. in rural areas to create an entrepreneurial base in the State.

5. The analysis of the Panchayat Samiti Industries has revealed that the very purpose of setting up such industries in rural areas as industrial cooperatives has been defeated as the transfer of ownership through gradual purchase of full share value by the artisan or producer members of these cooperative industrial units has not fully materialised as their members have failed to evince any interest in this regard during all these years. The members of the Board of Directors being honourary, always have a feeling that this is a Government Organisation and the Panchayat Samiti Industries Scheme will fall with a change in policy by the party in power. This is how a large number of Panchayat Samiti Industries have become defunct. Hence they have favoured the idea of formation of a Corporation. Being illiterate, they are not able to participate in the affairs of the management. The cooperative rules are also not flexible to accommodate rural industrialisation programme in a commercial manner.
6. The objective of the study was to assess if coordination between various agencies at operational level was effective. The Panchayat Samiti Industries Programme aimed at socio-economic uplift of the rural areas through all round improvement in agriculture, irrigation, housing and use of power driven machinery to augment production. All this, presupposed an integrated approach to each category of industry envisaged in the scheme as explained in Chapter-II for which coordination between different departments of Government and financing agencies was an essential factor. But this has not been made possible, as a result of which many of the units had to close.

7. The Panchayat Samiti Industries have not been able to utilise the local raw materials fully to meet the local needs, particularly in case of agro processing group of industries due to lack of financial resources. The Engineering groups of industries have not been manufacturing materials to meet local needs of villagers but are concentrating on production of articles required by Government agencies.

Judging from a broader angle and keeping the perspectives of the entire Panchayat Samiti Industries Programme in view, Government of Orissa launched an ambitious programme
of rural industrialisation in a massive scale for the socio-economic uplift of the rural mass. Certain mistakes in selection or location of particular types of industries were bound to occur, when such a scheme was to be implemented through the Government machinery which is not used to cope with the political thinking of the party in power. With the changes in parties in power during all the 15 years, the scheme has however survived criticisms, and 13 more number of units have been revived (as the total Panchayat Samiti Industries now functioning are 80 in 1978). Thus, what the Government of India are now advocating for rural industrialisation, it was put into practice in 1961-62 in Orissa. However this programme has to be implemented in a commercial manner to be more effective.

Keeping this in view, the following recommendations are submitted which may help in formulating a policy for revitalising the Panchayat Samiti Industries Programme.
RECOMMENDATIONS.

1. As the management of the Panchayat Samiti Industries under the cooperative structure has not become effective and the present system of managing them by the Industries department does not allow flexibility for carrying on day to day business in a commercial manner, the Panchayat Industries Officers have favoured the idea of bringing all the Panchayat Samiti Industries under a Corporation to be known as 'RURAL INDUSTRIES CORPORATION'. This will help to convert all the shares of the Panchayat Samiti units into equity of the proposed Corporation against which commercial banks can advance loans for expanding business activities of the units. The workers can still be taken on the Board of Management keeping in view the principle of 'participative management'.

2. A Central Marketing Organisation should be set up to procure orders from different agencies and route them to different units according to their production capacity. This will help the Panchayat Industries Officers to devote more time on production and maintain delivery schedule. It can render greater transport facilities by owning its own
transport fleet to and from different units for delivery of finished products and raw-materials.

3. In order to encourage delivery of finished products of the units situated in interior areas and transportation of raw materials to Panchayat Samiti Units, a transport subsidy should be allowed to the units which should be treated as a developmental cost of Rural Industrialisation.

4. An incentive scheme should be introduced for the Panchayat Industries Officers on the basis of the annual turn-over of each unit which will increase their sense of involvement and ensure higher turn-over every year. At present it is becoming difficult on the part of the Panchayat Industry Officers to take initiative with a static monthly salary, which they would otherwise get, being Government Officers if posted in similar types of jobs in the department itself. To start with, it is suggested that they should be allowed 1% as incentive bonus on their annual turn-over.

5. A production bonus scheme should be introduced for the workmen to augment production and to keep the plant and machineries properly engaged. This should be related
to the volume, quality of the products and their wage
structure.

6. The Panchayat Industry Officers, should be allowed a 'Promotional expenditure' for sales promotion, subject to a maximum ceiling per annum. At present they have no such discretion.

7. The industrial sheds where the Panchayat Samiti units are now functioning should be transferred to the proposed Corporation at their book value so that obtaining finance against mortgage of the building will be easier.

8. As the units are facing acute shortage of working capital, immediate steps should be taken to provide sufficient working capital through financing agencies against Government guarantee. Although Government guarantee was initially ensured from the study it has been observed that the bankers have not evinced keen interest to advance loans to individual units. This will be easier for the proposed Corporation to obtain loan as a bigger corporate body on behalf of the individual units.

9. As the inventory position of the Panchayat Samiti units are high, all efforts should be made to reduce the
level of inventory which will improve the position of working capital in the shape of liquid cash.

10. The amount of sales tax now being collected should be allowed to the Panchayat Samiti units as ‘DRAW-BACK INTEREST FREE LOAN’ for a period of five years which will help them to utilise such resources as working capital.

11. The sales tax amount paid by the Panchayat Samiti units on purchase of raw materials should be exempted for these units for a period of five years as their manufacturing cost is increasing and they are not able to compete with other private manufacturers when their rates are kept on par under rate contract system.

12. Efforts should be made for standardisation of furniture of different varieties being purchased by various Government departments, academic institutions and other State sector corporate bodies so that production cost can be minimised and delivery of such furniture will be quicker. Efforts should be made to produce furniture of good quality.

13. The bills of the units against supplies made by them to different Government departments should be paid in two phases i.e. 90% against delivery and 10% within one month.

14. Diversification of production is essential for some of the units such as Rice hulling and Sugar Mills during off season or manufacture of NARIYA type Tiles, brick making
cement tiles etc. in tile manufacturing units or improved variety of plough and manufacture of other agricultural implements in Light Engineering units.

15. Molasses arising out of sugar crushing units should be collected for manufacture of industrial alcohol.

16. As the Open Pan type of sugar cane crushing units is out dated, Vacuum Pan type will be more useful. Similarly Steel Cast Rollers to extract higher percentage of sugar cane juice will be more useful in sugar mills.

17. Advertising and publicity should be taken up by the Government at a subsidised cost for the products of the small scale industries in general and Panchayat Samiti units in particular in the State and this expenditure should be treated as a developmental cost as it is not possible to meet the cost of advertisement or publicity on their own.

18. Considering the totality of requirement of timber of various types by all the Carpentry units, a coordinated approach has to be made every year to Orissa Forest Corporation for the supply of timber to different units instead of allowing individual units to purchase their requirement.

19. Wherever Saw mills are attached to the Carpentry units, allotment of Forest Coupe to such units will be more helpful.
20. Introduction of a Rural Housing Construction Scheme for construction of houses in rural areas will help utilisation of tiles in exchange of straw (which can be utilised for setting up Straw Board units) as was envisaged in the original scheme and this should be taken up for the socio-economic uplift of the rural areas.

21. As the accounts staff are not trained, a suitable training programme should be introduced to impart adequate training to the accounts staff of these units. Similarly, Panchayat Industries Officers should be inducted to a refresher course on modern management techniques.

22. As the audit of Panchayat Samiti Industries is not being effectively done by the Registrar of Cooperative Societies and they are always in arrear as regards the audit, this work should be entrusted to an expert body having experience in audit of manufacturing units.

23. Advances should be made to producers of oil seeds, sugar cane and paddy to purchase their input during cultivation time and in turn an agreement be reached with them to supply seeds at the time of harvesting to the Agro Processing Group of Industries.

24. For modernisation of plants & equipments long term loans at a reduced rate of interest should be made available to Panchayat Samiti Industries and other small scale
industries in the State.

25. In view of the indifferent attitude of the Commercial Banks to meet the special financial needs of the Small Scale Industries in the country, Government of India should put up a Small Industries Development Bank of India (S.I.D.B.I.) as an apex organisation with Regional Banks in different States, to meet the financial problems of the small scale industries exclusively including the Panchayat Samiti units.

26. The Scheme of Central Purchase System which was envisaged originally while setting up the State Purchasing Organisation (renamed as D.E.P.M.) may be introduced for a selected number of products and the attitude of purchasing departments be assessed gradually before introducing it in full scale.

27. At least 200 acres of land be allotted to the Sugar Cane Crushing units for growing sugar cane, so that they grow better variety of canes to feed the units.

28. The study reveals, that delay in decision making at various levels in the Government, is a hindrance for a faster rate of industrial development in the state. It is therefore, suggested that a separate study be undertaken to assess the reasons and recommend procedural and other administrative changes necessary to keep up the pace of industrial development on par with other states in the country.
29. To give better protection to the small scale industries in general and Panchayat Samiti units in particular and for a faster rate of growth with stability, Government should enact a law on the pattern of "FUNDAMENTAL LAW ON SMALLER ENTERPRISE" (Law No. 154, 1963, Japan) in Japan.

******
****
***
*