

UNIT-5

Subject Name	Subject Code	Semester	Prepared by
ENTREPRENEURIAL DEVELOPMENT	18BBA65S	VI	Dr.R.Geetharamani, Assistant Professor

PROJECT FINANCING

Finance is one of the foundations of economic activity of mankind. It is needed for starting the business and also to keep it going. It is rightly described as the life blood of any industrial or commercial undertaking.

CLASSIFICATION OF CAPITAL






On the basis of the purpose for which finance is required, finance or capital may be classified into fixed or block capital and working or circulating capital.

FIXED CAPITAL

It refers to the amount required for acquiring fixed assets like land, building, machinery etc.

FACTORS GOVERNING FIXED CAPITAL REQUIREMENTS

The amount of fixed capital requirement of a project depends on the

-  Nature of project.
-  Size of the project.
-  Diversity of production
-  line. Method of production.
-  Method of acquiring fixed assets.

WORKING CAPITAL

It consists of funds invested in current assets. There are two concepts of working

capital. One is gross concept and the other is net concept. Gross concept working capital refers to the amount of funds invested in current assets. Working capital is equal to total current assets. Net concept working capital refers to the excess of current assets over current liabilities. Working capital is equal to current assets minus current liabilities.

TYPES OF WORKING CAPITAL

It is broadly classified into two- permanent working capital and variable working capital.

1) **Permanent Or Fixed Working Capital** :- It is the minimum amount of working capital required to ensure effective utilization of fixed assets and support the normal operation of the business. It is again divided into two.

(A) **Initial Working Capital**- It is the capital with which the project is commenced.

(B) **Regular Working Capital**: - It is the minimum amount of the liquid capital to keep up the circulating capital from cash to inventories, to receivables and back again to cash.

2) **Variable Working Capital**: - This is the additional capital needed to meet seasonal and special needs. It is again divided into two.

(A) **Seasonal Working Capital**: - It refers to the additional working capital required during busy seasons.

(B) **Special Working Capital**: - It may be required to carry on a special sales campaign or financing slow moving stock or financing a period of strike or lockout etc.

FACTORS DETERMINING WORKING CAPITAL

It depends upon the following factors:

- ✓ Character of business.
- ✓ Size and volume of business.
- ✓ Length of processing period.
- ✓ Turnover.
- ✓ Terms of purchase and sales.
- ✓ Seasonal variation.
- ✓ Importance of labour.
- ✓ Cash flow.
- ✓ Stock.
- ✓ Cyclical fluctuation.

SOURCES OR MEANS OF FINANCE

There are basically two sources available for financing project- internal sources and external sources. If the size of the project is large, the fund requirement will have to be financed from external sources. The technique of raising capital from multiple sources is known as layered financing. The following shows the various sources of project finance

A) SOURCES OF LONG TERM FUND (FINANCE FIXED CAPITAL REQUIREMENT):-

- 1) Issue of shares.
- 2) Issue of debentures.
- 3) Term loans from specialized financial institutions like IFCI, IBRD etc.
- 4) Venture capital.

B) SOURCES OF MEDIUM TERM FUNDS (FINANCE FIXED WORKING CAPITAL REQUIREMENT):-

- 1) Public deposits.
- 2) Deferred credits.
- 3) Lease finance.
- 4) Subsidy and other incentives/assistance from the government.
- 5) Hire purchase.

C) SOURCES OF SHORT TERM FUNDS (FINANCE WORKING CAPITAL REQUIREMENT):-

- 1) Trade credit.
- 2) Commercial banks.

3) Accounts receivable.

The important means of finance are discussed as follows:

1) **SHARE CAPITAL:** - Shares may be issued by a company after its incorporation or by an existing company. There are two types of share capital.

A) **Equity Share Capital:** - It represents the contribution made by the equity shareholders. The advantage of raising equity capital is that the company need not mortgage any of its assets to secure it from the market.

B) **Preference Share Capital:** - They enjoy a preferential right in respect of dividend and also repayment of capital in case of winding up in priority to equity shareholders. Financing through preference shares is much cheaper than the equity shares.

2) **DEBENTURE CAPITAL:** - It refers to borrowings. Debenture holders being creditors have neither voting powers nor control in policy making. They get a fixed rate of interest even if the company incurs losses.

3) **TERM LOANS:** - It is granted on the basis of a formal agreement between the borrower and the lending institution. Long term capital provided directly by a lender in the form of a negotiated contract according to all details of the agreement is called term loan.

4) **VENTURE CAPITAL:** - It refers to giving capital to enterprise that has risk and adventure. It is a financial investment in a highly risky project with the objective of earning a high rate of return.

5) **PUBLIC DEPOSITS:** - A company can raise deposits to meet its capital needs directly from the public at an interest rate generally above the bank rate.

6) **DEFERRED CREDITS:** - Under this arrangement payments to suppliers of plant and equipments are made in agreed instalments over a specified period of time at some agreed rate of interest on the outstanding balance.

7) **INCENTIVE SOURCES:** - The government and its agencies may provide financial support as incentives to certain types of promoters or for setting up industrial units in certain locations.

8) **LEASE FINANCING:** - it can be explained as a contract between the owner of the asset and the user of the asset whereby the owner of the asset gives it to the user for a consideration. The owner of the asset is called the lessor and the user of the asset is called the lessee. The consideration which is required to be paid by the lessee for using the asset is called lease rental.

9) **INSTITUTIONAL FINANCE:** - There are several financial institutions for giving financial assistance to entrepreneurs. Some of them are IDBI, IFCI, SIDBI, NABARD etc.

GENERATION OF PROJECT IDEAS

It is the process of collection, compilation and analysis of economic data for the purpose of finding out possible opportunities for investment and with the development of the characteristics of such opportunities. Emergence of project ideas from different sources is called generation of project ideas. The idea should be sound and workable, so that it may be exploited. The entrepreneur has to be imaginative and foresighted to discover a business/Project idea.

SOURCES OF THE PROJECT IDEAS

The business idea arises from an opportunity in the market. Entrepreneurs should have a keen and open mind to look for opportunities and generate business ideas. It is not a matter of analysis but of instinct. Ideas come from many sources. Some of the sources are as below:

OUR OWN NEEDS

TRADE AND PROFESSIONAL JOURNALS.

PROJECT PROFILES.

TRADE FAIRS AND EXHIBITIONS.

SUCCESS STORIES OF FRIENDS AND RELATIVES.

PROSPECTIVE CONSUMERS.

RESEARCH ORGANISATION.

UTILISATION OF WASTE MATERIALS.

STUDY OF GOVERNMENT POLICY.

DEVELOPMENT OF OTHER NATIONS.

ITEMS RESERVED FOR SMALL SCALE UNITS.

SCREENING OF PROJECT IDEAS

The need for screening of the ideas arises because all the ideas generated may not be promising. Only the most promising or most profitable ideas are to be selected for further study. The process of evaluating the project ideas with a view to select the best and promising idea after eliminating the unprofitable ideas is called screening of project ideas. The following factors need to be considered:

- 1) **Cost of The Project:** A study of the cost structure under material cost, labour cost, factory overheads etc., will give a good idea regarding different types of costs.
- 2) **Profitability:** The project yielding higher return must be selected.
- 3) **Marketing Facilities:** Existing and potential demand in domestic and export market, nature of competitions, sales and distribution system, consumption trends etc., should be assessed and evaluated before taking the final decision.
- 4) **Availability of Inputs:** The resources and inputs required for the project must be reasonably assured. The availability of skilled workers is to be ensured before launching an enterprise.
- 5) **Consistency with Government Regulations and Priorities.**
- 6) **Compatibility with the Entrepreneur:** The idea must suit the interest, personality and resources of the entrepreneur. It should not be beyond his capacity.

Introduction of SSI

Essentially the small scale industries are generally comprised of those industries which manufacture, produce and render services with the help of small machines and less manpower. These enterprises must fall under the guidelines, set by the Government of India.

The SSI's are the lifeline of the economy, especially in developing countries like India. These industries are generally labour-intensive, and hence they play an important role in the creation of employment. SSI's are a crucial sector of the

economy both from a financial and social point of view, as they help with the per capita income and resource utilisation in the economy.

Examples and Ideas of Small Scale Industries

- Bakeries
- School stationeries
- Water bottles
- Leather belt
- Small toys
- Paper Bags
- Photography
- Beauty parlours

2. Characteristics of SSI

- **Ownership:** SSI 's generally are under single ownership. So it can either be a sole proprietorship or sometimes a partnership.
- **Management:** Generally both the management and the control is with the owner/owners. Hence the owner is actively involved in the day-to-day activities of the business.
- **Labor Intensive:** SSI's dependence on technology is pretty limited. Hence they tend to use labour and manpower for their production activities.
- **Flexibility:** SSI's are more adaptable to their changing business environment. So in case of amendments or unexpected

developments, they are flexible enough to adapt and carry on, unlike large industries.

- **Limited Reach:** Small scale industries have a restricted zone of operations. Hence, they can meet their local and regional demand.
- **Resources utilisation:** They use local and readily available resources which helps the economy fully utilise natural resources with minimum wastage.

set up a small scale industry. You are in the right place. Here are some steps you need to follow to set up a small scale industry:- 1. Selection of Product 2. Location of Enterprise 3. Deciding Organisation Pattern 4. Preparation of Project/Feasibility Report 5. Registration with Authorities 6. Statutory Licences/Clearances 7. Arranging Finance 8. Obtaining Land and Building and Few Others.

Step 1. Selection of Product:

Product selected for manufacturing should have good market potential and profitability. For this purpose market study is necessary.

Following factors should be considered while selecting a product for manufacturing:

- (i) Product should have no or little competition.
- (ii) Innovative idea.
- (iii) Experience in the line.
- (iv) Easy availability of raw material

(v) Government policy about the product.

(vi) Whether it meets the requirement of the society.

(vii) Easy access-ability to market.

(viii) Availability of finances.

(ix) Availability of water and power.

Step 2. Location of Enterprise:

Location should be decided considering the economy between the raw material, transportation cost and availability of land at cheaper rates with other facilities nearby.

In this connection facilities offered by various State Governments are also relevant Industrial estates with pre-built factory sheds/developed plots have been set up in different parts of the country for coordinated, intensified and integrated development of small scale industries.

State Governments provide a lot of facilities at these estates like subsidy on rent for factory accommodation, allotment of sheds on hire-purchase basis, subsidised charges for water and power, exemption of sales tax on certain categories of industries for a given period of time.

Step 3. Deciding Organisation Pattern:

A small scale can be started in any following organisational patterns:

(i) Proprietary.

(ii) Partnership firm.

(iii) Cooperative Society.

(iv) Hindu undivided family.

(v) Company.

Step 4. Preparation of Project/Feasibility Report:

It is very essential to prepare a project report or feasibility report which theoretically justifies the starting of a factory profitably. This is also essential for getting loan from the banks and other facilities from other agencies. It also enables an entrepreneur to assess inputs required to guide for his future activities.

The report should cover the economic and commercial analysis in terms of the following:

(a) Technical feasibility.

(b) Economic viability.

(c) Financial implications.

(d) Managerial competence.

Steps in Making Feasibility Report:

1. Summary of product selected. For the purpose of choosing the product help of Small Industries Service Institute could be taken and the various reports on various products prepared by them consulted.

2. Market Survey.

3. Technical Study.

(a) Design and drawings of the product.

(b) Preparation of operation sheets for various components.

(c) Material requirements.

(d) Mechanical loading.

(e) Equipment requirements.

(f) Organisational layout.

(g) Personnel requirements.

(h) Floor area requirements and layout with materials handling arrangement.

(i) Quality Control.

4. Costing.

5. Cost analysis: Requirement of Fixed and working capital Controlling project costs over run through effective project planning, implementation and control.

6. Budgeting.

7. Procurement of Finance.

8. Critical report on feasibility. For this rate of return on the invested capital is taken as the criteria for analysing the feasibility of the project.

Approval of Scheme:

Once the industry is selected and the scheme is prepared, owner should get this scheme approved. Approval is given by the Directorate of Industries and Civil Supplies of their respective states.

Although approval of the scheme is not compulsory but it is in the interest of the industries to submit their schemes for approval. Technical assistance will be provided to only those whose schemes are approved and registered with it.

The Scheme should be prepared in a prescribed pattern and be submitted to the District Industries Officer/Assistant Director of Industries in 7 copies if imported raw material is required and in 4 copies if such raw material is not required. This approval is valid for 12 months only. If the industry is not started within 12 months of its being approved, scheme is treated as cancelled.

Step 5. Registration with Authorities:

Small Scale Industries are required to get themselves registered with following authorities:

(a) State Directorate of Industries:

This, although voluntary but for getting various facilities and assistance from Government, small scale entrepreneurs are advised to get their units registered.

(b) DGS & D:

This has a system of registration of firms as approved contractors in the following categories:

(i) Manufacturers of all stores purchased by DGS&D.

(ii) Sole selling agents/sole distributors/distributors who are registered with DGS & D.

(iii) Stockists of imported and indigenous stores.

(iv) As assemblies for items like diesel generating sets, air-conditioning plants etc.

DGS&D (Director General of Supplies and Disposal) is the Central Purchase Organisation of the Government of India, who purchases store for most of the Government offices from these registered units.

(c) Registration under Factories Act

(d) Obtaining Licence from Municipal Authority:

Permission of Municipal/Local authority is required to undertake an industrial work within its limits.

(e) Registration with Reserve Bank of India:

It is compulsory for every exporter to obtain an exporter's code number from the RBI before engaging in export.

(f) Registration with Regional Licensing Authorities:

For export or import, a firm is also required to obtain an Importer Exporter Code (IEC) number from the Director General of Foreign Trade. Customs Authorities allow import or export of goods only when the firm has a valid IEC number.

(g) Registration with Export Promotion Councils:

In order to enable to obtain benefits/concession under the export-import policy, the firm is required to register with an appropriate export promotion agency.

(h) Registration with Sales Tax Authorities:

A firm should be registered with the Sales Tax Authority of the State for getting exemption from both Sales Tax and Central Sales Tax for shipping goods out of the country for export.

Step 6. Statutory Licences/Clearances:

Depending on the product line chosen, size of the units/workers employed etc. an entrepreneur is required to seek approval for specific regulations applicable in his case. Depending upon the nature of the activity a unit has to secure various licences, clearances, no objection certificates, approvals and registrations etc. details of which can be obtained from the District Industries Centres.

Some of such commodities are Alcohol based industries, Arms, Boilers, Cigarette, Cold Storage, Chemical Industry, commercial vehicles, drugs and chemists, explosives, food, furnace oil, fertilisers, kerosene, LPG, minerals, paper, printing press etc.

Step 7. Arranging Finance:

A firm is required to explore internal and external sources for raising funds. A judicious mix of funds should be accorded first preference.

Internal Sources:

- (i) Personnel and family savings.
- (ii) Loans from LIC. Provident Fund Account.
- (iii) Personal loans against assets like land and property.
- (iv) Personal loans against shares and debentures.
- (v) Personal loans from societies, chit funds etc.
- (vi) Loans from relatives and friends.

External Sources:

Banks and other financial institutions grant loans and advances for the purchase of machinery, equipment and land and buildings etc.

Step 8. Obtaining Land and Building:

To overcome the problem of availability of land for the construction of factory, the State Department of Industries have set up Industrial Areas and Industrial Estates in the urban, semi-urban and rural areas. Land is allotted in Industrial areas on lease for a period of 99 years. Factory accommodations with facilities of water, electricity, transport, bank, post-office etc., are provided in the Industrial Estates.

These factory accommodations are available at reasonable rents, on the hire-purchase basis or on outright purchase. Several state governments allow subsidy on rent for these accommodations, water and electricity, exemption from sales

tax on certain categories for a given period of time, and loans to small industries in non-confirming areas for shifting to industrial areas.

Step 9. Procurement of Machinery and Raw Materials:

National Small Industries Corporation Ltd (NSIC) supplies indigenous and imported machinery to small scale units on hire- purchase basis.

Small Industries Development Organisation (SIDO) maintains close liaison with raw material suppliers such as primary producers, channalising agencies like STC (State Trading Corporation), MMTC (Minerals and Metals Trading Corporation) etc. SIDO assists the state Directors of Industries and Small Scale Industries (SSI) Corporations in the estimation of raw materials required by the respective Small Scale industries. State Directorate of Industries fix up specific quotas for industrial units while undertaking distribution of scarce raw materials.

Step 10. Connections for Power and Water Supply:

Consumers are allowed L.T. supply for load upto 75 HP, beyond 130 HP loads they are supplied only H.T. supply. For the load between 75 to 130 IIP consumer has option either to avail L.T. supply or H.T. supply. For water, entrepreneur should apply to the water department of the municipality or corporation or make his own arrangement by installing a tube-well.

Step 11. Recruitment of Staff:

In these days of specialisation and competition, professionals and skilled workers are necessary to be recruited. After making realistic assessment of the actual manpower requirements of an enterprise, suitable arrangements should be made

for recruitment of personnel. If the entrepreneur himself is not specialised in the particular field, he should appoint a works manager well-versed in that particular field.

Step 12. Marketing Management:

Marketing is a two-way exchange process in which the needs and wants of the buyer and seller are satisfied.

The NSIC provides assistance in marketing the products of SSI sector, both at home and abroad. The corporation markets products of SSI sector under the Government Stores Purchase Programme to meet the requirements of departments, Railways, Defence etc.

Other schemes which are providing marketing assistance to small scale units are:

(a) Government's stores purchase programme through DGS & D.

(b) Supply of stores to state Governments.

(c) Supply of stores to Defence.

(d) Supply of stores to Railways.

(e) Canteen stores department, Mumbai-400 040.

(f) Participation in International Exhibition and Fairs through SSIDO, STC and the Indian Trade Promotion Organisation.

(g) Trade centres established by Govt. of India of Jaipur, Bangalore, Kanpur, Ludhiana, Hyderabad, Ahmedabad, Chandigarh, Bhubaneshwar and Cochin.

(h) State emporium and departmental stores.

(i) Export Market through S.T.C, SI SI in the respective states and State Export Promotion corporations.

Step 13. Quality Gradation and Testing:

Four Regional Testing Centres and 19 Field Testing stations have been set up under SIDO in order to:

(a) Improve the quality of products being manufactured in the small scale sector, and

(b) To provide requisite testing facilities.

Governments have also introduced a scheme to provide incentives to those small scale undertakings who acquire ISO-9000 certification or its equivalent.

Step 14. Training, Research and Design Institutes:

For the success of any industry, proper training is essential in production techniques, management, marketing and other aspects. Small Industries Service Institute and their extension centres organise training programmes to improve technical skills of workers and acquainting the entrepreneurs with advanced production and management techniques.

(i) Management Training by SIDO in industrial management, marketing, financial management, costing, and production.

(ii) Technical training courses for workers by SISIs.

(iii) Training programmes for engineer entrepreneurs by SISIs and others.

(iv) Entrepreneurial development for non-engineers by SIDO for different category of entrepreneurs.

(v) Central Institute of Tool Design (CITD), Hyderabad for fulfilling the needs of SSI in the fields of tool design (including jigs, fixtures, dies and moulds), manufacturing and training of technical personnel.

(vi) Central Tool Room and Training Centre, Kolkata for assisting SSI by providing modern tools, technical consultancy, training of tool makers and tool designers.

(vii) Central Tool Room, Ludhiana for providing services in the area of tooling (tool design and tool manufacture), precision machining, heat treatment, technical training and the technical consultancy.

(viii) Process-cum-Product Development Centre (PPDC) at Ranchi, Agra, Meerut, Kannauj.

(ix) Indo-German Tool Rooms—Indore, Ahmedabad and Aurangabad.

(x) National Institute for Entrepreneurship and Small Business Development (NIES BUD), New Delhi conducts training programmes for trainers/motivators and entrepreneurs, prepares model syllabi for training various targets groups, conducts seminars/ workshops/conferences etc.

(xi) National Institute of Design, Ahmedabad.

(xii) Central Machine Tool Institute, Bangalore.

TYPES OF SMALL-SCALE INDUSTRIES

All types of small-scale industries found in India whether in manufacturing sector or service sector are divided into five types:

1. Manufacturing Industries:

Those units which are producing complete articles for direct consumption and also for processing industries are called as manufacturing industries. For example : Powerlooms, engineering industries, coin industries, khadi industries, food processing industries etc.

2. Ancillary Industries:

The industries which are producing parts and components and rendering services to large industries are called as ancillary industries.

3. Service Industries:

Service industries are those which are covering light repair shops necessary to maintain mechanical equipments. These industries are essentially machine-based.

4. Feeder Industries:

Feeder industries are those which are specialising in certain types of products and services, *e.g.* casting, electro-plating, welding, etc.

5. Mining or Quarries.

The incentives provided by the government are as follows:

1. Land.: Developed Tots are offered by every state for establishing industries.
2. Power: Some states supply power at a concessional rate of 50%, while some give it free of cost during the initial years.
3. Water : Water is either supplied at 50% concession or is totally free for a period of 5 years.
4. Finance : Small business units are offered loans at a very low rate of interest i.e. 10 to 15% subsidy is given for building capital assets.
5. Sales tax: Exemption from sales tax is extended by some states for a period of 5 years while all muon territories provide full exemption from sales tax. It is also known as Value Added Tax (VAT).
6. Raw material: Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron, steel, etc.

INDUSTRIAL ESTATE

1. Economies of scale : Units located in an industrial estate can adopt centralized buying and selling. The requirement of all the members for raw materials and components can be pooled together and bulk purchases made. Such bulk purchases would be eligible for quantity discounts resulting in lower costs.

Similarly in the case of sales, the produce of members can be pooled together and sold. This would reduce selling costs to a great extent. This kind of centralized buying and selling would enable member units to enjoy scale economies.

2. Economies of Agglomeration

Agglomeration refers to the benefit of reduced production costs because of concentration of industries. The benefits from agglomeration are:

- availability of skilled labor.
- presence of repair, maintenance and service facilities.
- availability of components.
- presence of financial institutions.

3. Benefits of inter-relatedness

The finished product of one unit might be the raw material for another unit. Since the units are located close by, it results in savings in transportation costs for the purchaser and assured market and reduced selling cost for the seller.

4. Low investment

Since the government provides land for setting up industrial estates at affordable costs, the initial investment is less. Industrialists can acquire assets on hire-purchase or on lease and can benefit from higher output.

5. Availability of infrastructure

The infrastructural facilities such as electricity, water, roads, telecom etc., are readily available in industrial estates. Entrepreneurs need not spend their time and money to get electricity connection, water supply and telephone connection. Therefore production can commence immediately without any wastage of time and resources

6. Availability of support facilities

Apart from the basic infrastructure, banks, post offices etc., are located in industrial estates. This facilitates business transactions to a great extent.

7. Mutual cooperation

The units in an industrial estate can cooperate among themselves and undertake joint research. Such research can be for exploring new markets, new sources of supply of raw materials, better processes etc., They can share best practices relating to quality standards, TQM, TPM, ISO standards etc. Such co-operation would benefit all the member units.

8. Focus on business

The initial investment is low and all the basic and supporting infrastructural facilities are readily available. Therefore entrepreneurs can focus their full attention on the business and concentrate on its growth.

9. Increased employment opportunities

Industrial estates create more employment opportunities and increase the mobility of labor. Since many of the units are labor intensive, there are opportunities for both skilled and unskilled workers.

10. Development of backward areas

Industrial estates provide employment to the local youth. With their development a host of facilities such as banks, post offices, insurance companies, housing, schools, health care facilities come up. This results in the development of backward areas and balanced regional development.

MAJOR CAUSES OF SICKNESS IN SMALL SCALE INDUSTRIES

Small Scale Industries (SSIs) play vital role in the economic development of a country. Some SSIs turn out to be sick due to various reasons. Some of the major causes for sickness in small scale industries are dealt in brief.

1. INADEQUACY OF WORKING CAPITAL

Some units turn out sick due to inadequacy of working capital. There may exist delay in sanction of working capital by financial institutions. Industrial units find it difficult to meet out day to day operations due to the time gap between sanction of term loan and working capital needs. Shortage of Working Capital is one of the main reasons for sickness.

2. NON-AVAILABILITY OF CREDIT

Sickness in SSI sector may be attributed to non-availability of credit. Delay in getting loans may result in stoppage of work or lead to production loss. Low production may lead to reduced sales which in turn may lead to financial loss.

3. POOR AND OBSOLETE TECHNOLOGY

Some industrial units use technology which is outdated. Out dated technology may affect the quantity and quality of production. This results in production loss and reduces demand for the goods.

4. NON AVAILABILITY OF RAW MATERIAL

Some units may require raw material which are scarcely available. Sometimes, the raw material required by the unit may not be available in abundance. Hence, this affects the production and the sales of the goods. If the raw material is not abundantly available, then the industrial units have to spend a large amount of money to buy them. This may result in financial loss.

5. MARKETING PROBLEMS

Sometimes, the industrial units may not know as to how to create demand for the products. Lack of marketing knowledge may result in less demand for the goods. Similarly, there may be less demand for the goods produced by the SSI due to competition or change in the taste of the buyers.

For example, lot of units producing dyes and ceramics have been found sick in Gujarat and Tirupur.

6. ERRATIC POWER SUPPLY

Shortage in power supply affects the industries. This results in delay in production of goods and leads to financial losses.

7. LABOUR PROBLEMS

The relationship between the employer and the employees may not be cordial. Some of the labour problems such as strike, lay off, lock out may lead to industrial sickness.

8. POOR MANAGEMENT

The entrepreneur must be a good planner, organizer and a manager. If the Industrial Unit promoters lack managerial skills, then it may lead to several problems.

9. INADEQUATE ATTENTION TO R&D

Industries have to allocate a part of money in research and development to survive and compete with competitors. Failure to focus on the above may lead to industrial sickness

10. DIVERSION OF RESOURCES

If the employer utilizes the funds obtained for the business for any personal purposes, then diversion of funds will lead to industrial sickness. The funds used for personal purposes cannot be regenerated and hence it may result in delay in payment of loans or financial crisis for the borrower of the loan.

11. GLOBALIZATION

Small scale industrial units may find it very difficult to compete with large scale industries and foreign competitors. Inability of the units to face growing competition due to liberalization and globalization may lead to industrial sickness.

12. DISPUTE AMONG PARTNERS

There may arise dispute between the partners or family members running the unit. This results in stoppage of work and leads to industrial sickness.

13. OVERAMBITIOUS PROJECTS

The project may not be technically feasible, such an overambitious project is one of the reasons for industrial sickness.

REMEDIAL MEASURES TO OVERCOME SICKNESS

Some of the remedial measures to curb and overcome sickness in industrial undertakings are as follows:

1. IDENTIFYING SICKNESS AT INITIAL STAGE

Sickness in Small Scale Industries are not a sudden phenomenon but it is a gradual process taking 5 to 7 years eroding the health of a unit beyond cure. Therefore, the identification and detection of the sickness at incipient stage is the first and foremost measure to detect and reduce industrial sickness. Sickness must be identified at initial stage.

2. FINANCIAL ASSISTANCE

Lending agencies need to relax their lengthy process and other norms for extending credit to the SSIs. To combat the incidence of sickness financial institutions should grant credit without delay to SSI sector.

A number of initiatives can be undertaken to overcome credit problems such as:.

1. Increasing Working capital limit.

2. Enhancing the powers of bank managers of specialized bank branches in offering credit to SSI.
3. Strengthening the mechanism for discounting bills.
4. Reduced rate of interest.

These measures would improve the flow of credit and keep a check on the incidence of sickness.

3. IMPROVING INFRASTRUCTURE

Infrastructure facilities can be improved by setting up industrial estates. Common testing centres etc., infrastructural problems can be solved by improving the roadways, waterways, establishing telecommunication systems.

4. TECHNOLOGY UP-GRADATION

Funds may be provided by the financial institutions for adoption of advanced technology. Similarly, some sort of training may be provided for use of the latest technology to overcome technological problems. Technological up-gradation can help to overcome technological obsolescence.

5. MARKETING ASSISTANCE

Marketing assistance may be provided to entrepreneurs for marketing the goods produced by them. Government must help to market the goods. Government and Non Government Organizations (N.G.Os) can come forward for marketing the goods produced by the SSI sector. The problem of poor marketing of the products can be solved by coordinated efforts of entrepreneurs and promotional agencies.

6. LIQUIDATION

It is better to wind up the business when there is no possibility to revive the unit.

7. GOVERNMENT INTERVENTIONS

Interventions must be made by the government to prevent sickness. Periodic review of financial statements can help to identify and prevent sickness at initial stage.

8. TRAINING

A proper environment must be created where an entrepreneur will be educated and will have a proper knowledge, skill and experience about internal and external environment of business to compete with large-scale industries and multinational companies.

9. REHABILITATION

Potentially viable sick units should be dealt well for the purpose of rehabilitation. Rehabilitation is a remedy considered for industrial units, which have already become sick and for the units that are on the verge of collapse.

Under the provisions of SICA, 1985, the Government of India has established Board for Industrial and Financial Reconstruction (BIFR) in January 1987 for determining the preventive, ameliorative, remedial and other measures which are required to be taken in respect of sick industrial company and for expeditious enforcement of rehabilitation schemes.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit here in refers to a Sick Industrial Company). It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

The measures taken by BIFR are

1. Legal

2. Financial restructuring
3. Managerial

The Content in the E-Material has been taken from the text and reference book as given in the Syllabus