HOW TO START AN INDUSTRY

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

President, World Bank

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"How to start an industry" is a vast and complicated subject, for it covers not only large, medium and small industries, but also the various Governmental agencies which have been started to help their development. I shall first give an idea of the various types of industries, and then deal with the procedure to be followed to establish any industry.

There are various departments in the Government sanctioning schemes for starting an industry. The Government recognises only two types of industries, large and small, apart from other specialised industries like the village industries under the Khadi and Village Industries Commission, and industries falling under the purview of the Handicrafts Board, Silk Board, Coir Board and Handloom Board. Medium industries, which have lately developed, are classified by the Government as large industries. The definition of a small industry is the demarcating factor.

The Government seriously started planning for the development of small industries in 1953-54. They were then mainly those industries which were not registered with the Development Wing of the Government of India. The Government had no classification either. There was no department as such of the Government which was specially established to help industries which were not registered.

So, any industry which did not come under the Industries (Development and Regulation) Act of 1951—that is under the Development Wing—was a small industry. Thus any industry with less than 50 workers and working with power, or less than 100 workers without power, and with assets of less than Rs. five lakhs came to be considered a small industry.

The Government considered various schemes and established the organisation of the Development Commissioner, Small Scale Industries, to assist intensive development of small industries. The impact of the scheme of development was soon felt and the small industrialists and the Government soon realised that the existing definition was not adequate.

The definition was later changed to less than 50 workers per shift with power or less than 100 workers per shift without power, and Rs. five lakhs or less of capital assets. The argument was put up that limiting the number of workers in a small scale industry resulted in limiting the number of shifts and consequently reduced the production that could be reached with the same amount of capital outlay.

The definition was again changed in 1958. Now, any industry is a small industry which has a block capital of Rs. five lakhs or less irrespective of the number of workers employed. Block capital is defined as the cost of land, building and machinery.

The enlargement of the definition is a great achievement by itself and shows the earnestness of the Government to help the small industries. The earlier definition denied this help to many industries on the borderline.

In 1951, the Industries (Development and Regulation) Act was enacted in order to develop large-scale industries. This Act intends to ensure that there is a planned development of industries throughout the country, with no concentration of any particular type of industry in any one region. Also the Government wanted the power to regulate the development of industries and the basic structure of the country's growing economy.

The industries that came under this Act were registered with the Development Wing of the Ministry of Commerce and Industry for assistance and regulation. The Development Wing consists of many specialised departments. There are about 17 Technical Directors, three Industrial Advisors and about 85 Development Officers. The main functions of the Wing are to approve the scheme, to issue recommendations for licences for raw materials and capital goods, to sanction increased production, diversification of products, improvement of the quality of products and scrutinising foreign collaboration agreements, steel quotas, cement, promotion of exports, etc.

Till recently, previous sanction of the Development Wing was necessary for starting an industry which will employ 50 or more workers with power or 100 or more workers without power and have more than Rs. five lakhs capital assets. Now the rules have been relaxed and industries with less than Rs. 10 lakhs capital or employing less than 100 workers can start on their own. But that does not make them small industries because the definition of a small industry applies only when the capital assets are Rs. five lakhs or less.

Industries with capital assets exceeding Rs. five lakhs but less than Rs. 10 lakhs and employing less than 100 workers are intermediary industries. Their development has been facilitated because they do not come under the orbit of the Development Wing for sanction.

It generally takes more than five months on an average for getting such a sanction. The law stipulates that an application should be processed within three months, but an excuse can always be provided for any delay in the processing by asking a few simple questions. Sometimes it has taken 15 months for getting a sanction. The Rs. 10-lakh limit laid down provided better chances for basic industries to come without any prior sanction.

The Development Wing helps even these industries in getting import licences for machinery or raw materials.

Thus, in effect, it is only when the machinery is of Indian origin and when the raw materials are available locally that an industry can be started without any prior Government sanction.

Any industry registered with the Development Wing can expand its capacity with the sanction of the Development Wing. When this additional capacity is sanctioned, it also means that the Development Wing is bound to give raw material licences or recommend the issue of such licences to the Chief Controller of Imports and Exports. The further raw material quotas are not very hard to get provided the permission of the Development Wing is taken. This is not the case with a small industry.

Before starting a large industry a scheme has to be prepared which should mention particulars relating to the requirements of block capital, list of machinery to be imported or procured from indigenous sources, estimates of recurring and non-recurring expenditure, the cost of production, the profit that is expected to be made, requirement of foreign technicians, proposed location, power requirement, requirement of raw material, water supply, requirement of rail transport, etc. If foreign collaboration is involved, the procedures are still more elaborate.

There are special forms for obtaining the sanction of the Development Wing. Seven copies of the application have to be sent to the Secretary, Ministry of Commerce and Industry, who sends these forms to various Departments, to the Development Wing—Directorate of that particular industry for scrutiny and to the State Director of Industries to find out whether the information given by the applicant regarding power supply, location and the essentiality is correct or not. After this preliminary investigation, the application is placed before the Licensing Committee. This investigation takes time and if the application forms are not correctly filled in, the sanction will be delayed. Normally, the sanction can be got within three months.

It is also necessary to apply and take consent of the Controller of Capital Issues in the Ministry of Finance, for raising any capital of more than Rs. 10 lakhs in the capital market.

If the project involves foreign collaboration, the terms of such collaboration have to meet the approval of the Government. The terms sanctioned depend on the merits of each case. The basic requirements of the Government are:

1. The scheme should not involve recurring commitments for royalty payments for a period extending beyond 10 years.
2. There should not be any restriction by foreign collaborators on exports of the products manufactured in our country. There should not be a total restriction. We should be allowed to sell the products at least to some countries.
3. There should not be compulsion to purchase components from the foreign country concerned.
4. Royalties should be related to the turnover and not laid down on an *ad hoc* basis.
5. The scheme should have effective Indian control.
6. There should also be a clause for training Indian personnel in factories in foreign countries.

Following these principles would normally ensure Government's approval of collaboration terms. The Government on its part also gives a number of concessions. They are:

1. It allows appropriate interest on the loan of the foreign collaborators.
2. It guarantees to protect the foreign investment.
3. It gives tax concessions and will consider the repatriation of capital if it is spread over a number of years.

Applications for sanctioning the terms of the collaboration were formerly to be made to the Exchange Control Department of the Reserve Bank of India. But now the work has been centralised and applications should be made to the Government of India, Commerce and Industry Ministry, Industrial Policy Section, New Delhi.

The import licence is granted after the terms of foreign collaboration are approved. The Government is very choosy where substantial amounts of foreign exchange are required for import of machinery. The application should specify the country of origin and the currency area. Alternate preference should always be given, unless it is necessary to obtain machinery only from a particular country. For example when the Development Loan Fund sanctions loans, machinery has to be imported from the U.S.A. only. Otherwise preference is generally given to the country which has easy repayment agreements with the Government of India.

Arrangements for long-term loans for purchase of capital equipment are to be made with organisations like the Industrial Refinance Corporation of India, the Industrial Credit and Investment Corporation of India, and the International Finance Corporation, U.S.A. If the foreign collaborators agree to supply the machinery themselves, then the application is sure to be passed by the Government after scrutinising the terms of participation.

To obtain final sanction, the application with complete data is placed before the Licensing Committee consisting of representatives of various Ministries, viz. Commerce and Industry, Finance, Labour, Mines and Fuel, Steel and the Planning Commission, for scrutiny from a number of angles.

For example, the location of an industry is of vital importance. Alternative location may have to be agreed to. After getting all these documents, viz., sanction from the Development Wing, Import Licences from the Chief Controller of Imports, sanction of the Controller of Capital

Issues for capital issues, approval of foreign collaboration agreement, one is well set for starting a new large industry.

The small industries are not in such a happy position as large-scale industries are, as far as Governmental help is concerned. There is no department of the Government to help them to get raw materials, except the Director of Industries of the State, whose help has proved ineffective. The small-scale industries may get licence for raw materials once and may not get it the next time. Due to this reason, a small industry is not as easy to start as one may imagine.

The fillip to the setting up of small industries was given in 1953 when the Ford Foundation observed that small industries had been left to themselves. No engineers or technical personnel were employed by small industries, for they could not afford them. Large industries did not buy stores from small industries because they could not trust the quality. The Ford Foundation team suggested a number of remedies. They suggested that the Government should start a pool of technical people who would be located at different places all over the country to help these small industries in technical matters.

They also suggested that the Government should help these industries in obtaining machinery on a hire-purchase, easy instalment basis. For this purpose, they suggested that a Corporation should be established by the Government which could also look after marketing research and other promotional activities connected with the products of small-scale industries. The Government being a bulk purchaser of commodities, the Ford Foundation suggested that it should help small industries by purchasing their products.

The Government set up the Small Industries Service Institute in 1955 at Bombay, Madras, Delhi and Calcutta, with mechanical, electrical, chemical, rubber and plastics, leather, foundry, civil engineering and survey sections and for training persons in business management. The duties of these institutes are more or less advisory. The number of these Institutes has been increased gradually and now each State in India has an Institute and there are also some Branch Institutes and 45 Industrial Extension Centres.

The Institutes give technical advice regarding improvement of production techniques, marketing and management problems. Over 3,000 schemes have been prepared by the 16 Institutes so far. The Institutes also help in obtaining machinery on hire-purchase basis and credit for purchase of raw materials.

The Training Section of the Institute not only trains the Small Industrialists in Business and Industrial Management, but also trains Industries Officers from the States, who will be in charge of industrial departments in the National Extension Service Blocks, the network of which covers the whole country.

This idea, borrowed from the United States, has been implemented during the Second Plan. A trained Officer is allotted to a Block of 100 villages to advise and guide the people in village and small-scale industries. Likewise, specially trained Officers for advice in agriculture, health, animal husbandry, social welfare, etc., are also posted to the Block. The Institutes train the Block Level Extension Officers (Industries) for these Blocks. The Training Section also conducts evening classes in blue-print reading, heat treatment of metals, electroplating, scientific glassware manufacture, etc. for small industrialists who can gather knowledge during their spare time.

The Institute extends technical help to villages with the assistance of mobile workshops. There are mobile workshops for carpentry, blacksmithy, electroplating, leather, etc. With each Institute, there are four or five such workshops which tour all over the country. They actually give demonstrations of work to show to the villagers the application of the machine to the craft and the increased output resulting from the use of machines. These units supply hire-purchase forms which are easily processed.

The mobile workshops carry into the remote villages ideas of the most modern equipment and have been a great success.

Industrial Extension Centres are designed to give training as well as to provide facilities for use of machines to small industrialists who cannot afford to buy costly machines. There are 55 Extension Centres mostly located in urban areas with specialized machinery, not only giving training and facilities for the use of such machines to small industrialists but also acting as information centres in the area for new-comers in the field. Thus, there are Industrial Extension Centres in towns; Mobile workshops for the villages, and the Service Institute for the cities.

The Institutes design factory buildings, etc. for the Industrial Estate schemes prepared by State Governments. They conduct various types of surveys, such as industrial area and aid distribution surveys. An industrial survey gives data relating to any particular industry in India and an idea of the scope for future development. Area surveys are conducted to determine what industry can be started in any particular area, and the distribution aid surveys help individual industries in locating the markets of their products. The Institutes also publish technical bulletins, reports and schemes.

Apart from the Institutes, there is one more organisation, with branches at Bombay, Delhi, Calcutta and Madras, which helps small-scale industries. The National Small Industries Corporation was established in 1955 for providing help such as supply of machinery on hire-purchase basis, obtaining Government tenders for small industries' products and rendering marketing assistance through intensive market publicity, quality marking and export.

Between June 1956 and March 1961 the Corporation has accepted applications for hire-purchase from 4,549 applicants for 17,829 machines, costing more than Rs. 18 crores. Of these, it has delivered 4,633 machines costing approximately Rs. 3.23 crores, and is delivering machines costing Rs. 10 lakhs or more every month. There have been some delays and difficulties because of rigorous import licensing procedures.

Hire-purchase machines are given on liberal terms. For example, for machinery valued up to Rs. 50,000 the earnest money which is in fact the first yearly instalment, is 10 per cent; and for machines valued above Rs. 50,000 it is 20 per cent. The balance is to be paid in seven years' time in equal half-yearly instalments at six per cent interest. This has been further liberalised and a small-scale industrialist can now pay up to five per cent as earnest money on acceptance of the application and give a bank guarantee for the remaining five per cent or 15 per cent as the case may be, to be paid at the time of delivery. Further concessions are given for industrial co-operatives and ancillary industries which manufacture components for large industries in the public and private sectors.

In the field of marketing, the Corporation has helped the small industries in intensive selling campaigns through mobile sales vans, quality marking under the "JAN-SEVAK" brand, and exporting of their products, mainly to East European countries. Shoes manufactured by small industries, under the guidance of the Corporation, have been successfully exported to Russia, Poland, the German Democratic Republic, Bulgaria, etc. Nearly eight lakhs of pairs have been exported and it speaks for the quality of the shoes that there were repeat orders from these countries.

The Corporation helps small industries in manufacturing quality products and selling them to large public and private sector industries as well as to Government purchasing departments such as the Director-General of Supplies and Disposal, Railways, Defence Services, etc. It registers the small industries capable of producing quality products, free of charge and supplies them free tenders, while the Liaison Officers of the Corporation, attached to the purchasing authorities, see that the small-scale industries get a fair deal and get the price preference (maximum of 15 per cent) over the lowest acceptable quotations of the large industries.

This scheme was initiated in 1957 and it took some time before the effect of it was felt. Up to March 1957, 108 tenders were secured for small industries of the value of Rs. 5,87,000. The subsequent progress can be seen from the following table.

Year	Tenders Secured for Small-Scale Industries	Value
1957-58	580	Rs. 62,15,000
1958-59	1,766	Rs. 2,56,12,000
1959-60	2,055	Rs. 2,64,81,000

All the items purchased by the D.G.S. & D. and Railways are classified in four groups. Group I and Group II are those items that can only be made by large industries; Group III includes the area where small and large industries can compete, but where small industries get a 15 per cent price preference; and Group IV is reserved for small industries.

Recently the Railways have started purchasing from small industries in full swing and in January 1961 they placed 1,858 tenders of the value of Rs. 26,19,000 on small industries.

This shows that small industries have come up in quality to the specifications laid down by the Government. This in itself is a great achievement and a stepping stone to building small industries as a sound base of the country's development.

There is a credit guarantee scheme of the State Bank of India, under which, against the authority of the Corporation, the small industries are allowed to purchase 100 per cent of their requirement of raw materials, on credit, to meet their obligations in fulfilling the contracts secured through the help of the Corporation.

It is common knowledge that small industries always feel the scarcity of components if these components are not manufactured in India and are imported. To help some of these industries in getting the required components at reasonable prices, the Corporation imports various items in short supply, as for example bicycle components. The Corporation has imported and supplied bicycle components worth Rs. 1½ crores, and knitting and hosiery needles worth Rs. 19 lakhs to small industries.

The Corporation has started two Prototype Production Centres, one at Okhla and the other at Rajkot, for training higher grade technicians, foremen, etc., and for designing and producing prototypes of small machine tools which can then be manufactured under licence by the small industries. Lastly, there are what are called Industrial Estates. The idea came up in 1955 and Industrial Estates were constructed by the Corporation in Okhla and Naini. Covered factory space was offered to small industries at a cheap rate of 0.8 nP. per sq. ft. Later, similar estates have been started by State Governments at Baroda, Poona, Rajkot, Surat, Kolhapur, Ahmedabad and other places.

As mentioned before, there is no sanction necessary for starting a small industry. You can get the technical advice from the Small Industries Service Institute and decide on the type and size of industry you wish to start. You can purchase the machinery if it is available from indigenous suppliers or approach the Corporation to supply it on hire-purchase basis, or apply for an Essentiality Certificate to your State Director of Industries and, after receiving it, apply to the Chief Controller of Imports and Exports or the Controller at Ports, as the case may be, for the licence.

Financial loans are given to small industries by the State Director of Industries under the State Aid to Industries Act, and by the State Finance Corporation. The Director of Industries may give Rs. 1,000 on personal bond, Rs. 5,000 on personal bond of two persons and upto Rs. 10,000 after taking your assets as security. In the last case, the loan will be limited to 75 per cent of the valuation of the pledged assets. Application for more than Rs. 10,000 are processed by the State Financial Corporation which may give 50 per cent of the pledged assets and may also ask for collateral security. This loan is given for factory construction, acquiring capital assets, expansion programme and working capital. The interest is between three to five per cent.

The State Bank of India also gives working capital under its Pilot Credit Scheme.

It is true that there are lots of complaints heard against the Institutes and the Corporation, especially that there is long delay in getting work done from these bodies. Any organisation, if it develops at such a rapid rate, creates a vacuum in administration and one is sure that the organisations will settle down and eliminate the defects to gear up their contribution to the target of development set by the Third Five-Year Plan.

The only defect in the whole system is the fact that no one can guarantee the steady supply of raw materials to a small industry. It is surprising to note that the Government is spending vast sums of money in developing small industries but at the same time is completely indifferent to this basic need of small industries. The small industries have to fill up a very elaborate form for an Essentiality Certificate whenever raw materials are required. The Director of Industries cuts down the requirement to maybe half and gives the Essentiality Certificate.

Then the application is forwarded to C.C.I. & E. or J.C.C.I., who, like the proverbial old lady with a pair of scissors, cuts down the recommended quantity to a ridiculously low level and, thus, all get the satisfaction of having done their job satisfactorily. There have been many cases where this process has left an industry with the licence for only one or two months' requirements of raw materials and it has to depend on the purchase of raw material at very high prices from the market.

This vicious circle has started with the basic premise that all small industries are in the habit of inflating their demands and hence cannot be trusted, and the cut is introduced at every level, but no one cares to investigate why the same material is still available at sky-high prices in the market. The material in the market has also come through the licence holders who have received licences from the C.C.I. & E. No one investigates this, but they take the easy way out, of penalizing a small-scale industry, because it has no Godfather like the Development Wing. This is the only pitfall for small industries.

This is only an outline of how to start an industry. While the technicalities can be learnt, it is essential to remember that ultimately the qualities of initiative and enterprise are the determining factors in establishing and successfully operating industries.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

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Free Enterprise was born with man and shall survive as long as man survives.

—A. D. Shroff

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