

Financing the Industrial Sector – A Case Study of Tapi District

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Abstract

The present paper tries to analyze primarily the sources of finance available to an entrepreneur in the industrial sector particularly in the tribal district of Tapi, Gujarat. It also highlights the difficulties faced by the entrepreneurs for financing their projects both – new as well as expansion. Sourcing of capital appears to be second most crucial element for entrepreneurs in this region after land acquisition. Non-availability of capital easily leads to negative effects not only on the growth and development of the particular industrial sector alone, but on the entire economy of the region. Industrial activities are very difficult task in these areas with the presence of regulations and widespread agitations from the local population along with NGO's. They are emotionally attached towards their land and also fear for their livelihood in the absence of any other skills for employment leading to difficulty in acquisition of land from farmers. Hence, Industrial development in these areas appears to be very limited. Lastly, the paper draws attention towards the cost of capital, economic development post industrialization, and improvement in social indicators like literacy, employment opportunities, etc.

Key Words: Entrepreneurs, Capital, Industrialization, Social Indicators, Land Acquisition

Introduction:

The State of Gujarat predominantly has been considered as an industrially advanced and prosperous state, though there are 30 under-developed talukas declared by the State government on the recommendations of the Cowlgi Committee in 2006. The State industrial policies attempts to leverage the present developed industrial base to achieve a higher economic growth along with development of the under-developed areas with high focus on the manufacturing sector

like Agro & Food processing, Automobiles & auto components, IT/ITeS & Electronics, Non-Conventional energy, etc. being the thrusts areas. The area of the present study, Tapi district, falls under the list of under-developed region with 3 out of 5 talukas declared under-developed. It has potential for development especially in the manufacturing sector in the areas of quarry, mining, agro-based products, cement, etc.

Literature Review:

According to Sadhak H. (1989) strengthening the role and position of small

scale industries is the only way for better utilization of local resources in his study “the role of entrepreneur in backward area”. He further argues that presence of rapid industrialization in the urban areas of independent India but its benefits could not be enjoyed by the rural and tribal population. Hence, it becomes necessary to make an in depth study of the problems of industrialization, kind of industrialization required in a particular rural area and the needs of local people.

Entrepreneurship development plays an important role in rapid industrial progress in the rural economy. Verma S B and Dr. Shivakumar Sing (2005) had shaded the role of factors affecting entrepreneurship development like cultural, traditional, social

and economical spheres. As per this study, entrepreneur has to face problems of market, capital, training and poor infrastructure. Similarly a study carried out by Vachchha H. and Sampath Ayanger (1974) advises setting up of industries based on locally available raw materials and the familiarity of local labour force in order to optimize the input factors. We will focus more on the capital aspect of entrepreneurship in the present paper.

Present Scenario:

Tribal areas are predominantly considered to be mineral rich and easy availability of other raw materials required for industrial activities. This is reflected in the responses received from the entrepreneurs on their choice of choosing this region for setting up of industrial unit.

Reasons	Responses	
	Nos.	%
Home Land	51	13.40%
Govt. Incentives	28	7.30%
Availability of raw material	77	20.20%
Availability of labour	68	17.80%
Market	81	21.20%
Infrastructure	68	17.80%
Other	9	2.40%
Total	382	100%

Source: Field Study

Above table indicates that availability of market and raw materials are the key reasons for choosing this region for their industrial unit. This breaks the popular myth

that industries are set-up only in areas where govt. incentives are available and is the last factor considered by entrepreneurs here.

Easy availability of raw materials locally is a key factor for the growth of manufacturing industries. Hence, there is no surprise to find dominance of manufacturing industries in

the occupational pattern of the industrial sector in the region which is evident from the table below:

Classification	Total Registered Units
Service	190
Manufacturing	237
Total	427

Source: DIC, Tapi

The above table indicates high presence of manufacturing sector and hence, demands higher capital investment. These industries are in the areas of stone crushing, textiles, pharmacy, plastic & rubber, engineering, metal products, food & beverages, forest based products, etc. However, the sample is dominated by stone crushing, agro-based,

food & beverages and engineering enterprises. Similarly, the units are dominated by micro, small and medium enterprises with 33% of them investing upto Rs. 25 lakhs and 67% of them investing between Rs. 25 lakhs to 5 crores. The following table shows the extent of capital investment at the time of setting – up of the unit from own sources:

Invstment (Rs. Lakhs)		% of Own capital							Total
		20	40	50	60	80	90	100	
upto 25	Nos.	0	1	5	2	4	0	21	33
	%	0%	3%	15.20%	6.10%	12.10%	0%	63.60%	100%
25 - 50	Nos.	0	1	5	4	5	1	7	23
	%	0%	4.30%	21.70%	17.40%	21.70%	4.30%	30.40%	100%
50 - 75	Nos.	0	3	0	1	4	0	5	13
	%	0%	23.10%	0%	7.70%	30.80%	0%	38.50%	100%
75 - 100	Nos.	0	0	0	0	5	0	3	8
	%	0%	0%	0%	0%	62.50%	0%	37.50%	100%
100 - 500	Nos.	1	4	5	3	3	0	3	19
	%	5.30%	21.10%	26.30%	15.80%	15.80%	0%	15.80%	100%
> 500	Nos.	0	0	0	0	3	1	0	4
	%	0%	0%	0%	0%	75%	25%	0%	100%
Total	Nos.	1	9	15	10	24	2	39	100
	%	1%	9%	15%	10%	24%	2%	39%	100%

Source: Field Study

It is clear from the above table that 39% of the entrepreneurs have raised initial capital from their sources while 24% of entrepreneurs, 80% of the initial capital were sourced themselves. Similarly, no. of entrepreneurs for whom 100% of capital was to be sourced by them, the initial capital required was upto Rs. 75 lakhs. Units

requiring higher initial capital, were either partnership or the entrepreneurs had borrowed money from outside. Thus, financial background of the entrepreneurs plays an important role in setting up of industrial units in this region. The table below highlights the extent of financial, moral and emotional support received from their family:

Family Help	Responses		% Cases
	Nos.	%	
Financial	76	50%	90.50%
Moral	63	41.40%	75%
Emotional	13	8.60%	15.50%
Total	152	100	181%

Source: Field Study

The above table reveals the fact that 50% of the total entrepreneurs received financial help from their family for setting-up of a new unit. Thus, it is clear that entrepreneurs are very much dependent on their family for capital requirement to establish their units.

As mentioned earlier, land acquisition for industries is a difficult task in this region. Locals have to be employed in the industries and mere assurance of employment will further aggravate the issue in future. The following table shows the pattern of employment generation in local industries.

Industry Category		Total Labour Force					Total
		< 10	11 - 50	51 - 100	101 - 200	> 200	
Food & Beverages	Nos.	4	8	0	2	1	15
	%	26.70%	53.30%	0%	13.30%	6.70%	100%
Stone Crusher	Nos.	9	11	0	0	0	20
	%	45%	55%	0%	0%	0%	100%
Agro Based	Nos.	4	7	3	0	1	15
	%	26.70%	46.70%	20%	0%	6.70%	100%
Textiles	Nos.	0	1	0	0	0	1
	%	0%	100%	0%	0%	0%	100%
Bricks & Cement	Nos.	5	10	0	0	0	15
	%	33.30%	66.70%	0%	0%	0%	100%
Chemical & Pharma	Nos.	0	3	0	0	0	3
	%	0%	100%	0%	0%	0%	100%
Engineering & Metal Products	Nos.	13	7	0	0	0	20
	%	65%	35%	0%	0%	0%	100%
Forest Based	Nos.	1	2	0	0	0	3
	%	33.30%	66.70%	0%	0%	0%	100%
Plastic & Rubber	Nos.	5	0	0	0	0	5
	%	100%	0%	0%	0%	0%	100%
Computer Technology	Nos.	0	0	1	0	0	1
	%	0%	0%	100%	0%	0%	100%
Infrastructure	Nos.	0	0	0	1	1	2
	%	0%	0%	0%	50%	50%	100%
Total	Nos.	41	49	4	3	3	100
	%	41%	49%	4%	3%	3%	100%

Source: Field Study

The above table reveals that 49% of units had employees between 11 – 50 while no. of units employing >50 are only 10 out of 100 selected industrial units. These units were found to be labour intensive which is the requirement of not only this region but the country as well to accommodate the growing labour force. In the initial stages of development in the backward regions, more employment with less capital should be the priority to justify the industrial development and most importantly to ease land acquisition. The above data shows this positive trend.

Credit Availability and Sources of Finance:

It is imperative for the entrepreneur to manage and arrange for the finances as and when required for survival. Finance is the key element in entrepreneurship and is required at every stage in business – inception, expansion and even for routine operations. The sources of finance can be grouped into two categories – Internal and External. The Internal sources are the one which are sourced by the entrepreneur's themselves namely own capital, borrowings from relatives and friends as well as any funds generated out of reserves and surplus account for an existing firm. The internal source has a very limited role to play amongst budding entrepreneurs having viable business ideas but don't have good financial background to fund them. The growth of firms is constrained by the quantity of internal capital sourced through internal sources. Hence, they have to rely more on the external sources which offer more options and can mobilize higher

capital in the form of debt and equity to suit the entrepreneur's requirements. Financial Institutions help entrepreneurs to mobilize capital in the form of issue of equity shares, preference shares, debentures, bonds, term loans, cash credit, mortgage loans, commercial papers, certificates of deposits, etc.

It is worthwhile here to note that the presence of financial institutions is limited to the urban areas and thus, rural areas are left with little or no help from the organized sector as far as sourcing of finance is concerned. Tapi dist. is no exception in this case, considering the fact that it's a region dominated by tribal population with agriculture as primary occupation (74.87%; 2011 census). This undermines the broad objectives of the various financial institutions set up by the central and state governments namely, ICICI, IDBI, SIDBI, State Financial Corporations, etc. to name few. However, these institutions are found to be present more in the urban areas with higher exposure to the large scale industries and more importantly, were financing to ventures having profit generating abilities. Hence, entrepreneurs from the rural society find it difficult to source capital externally.

The extent of capital required defers from one unit to another. Term loan are taken to buy capital assets while cash credit facilities are availed for fulfilling operating expenses. However, an entrepreneur may not be able to fulfill these requirements from his personal sources every time and hence; the importance of financial institutions becomes imperative. State and Central governments have established a no. of such financial

institutions to cater to the requirements of industries that provide credit facilities for short, medium and long term requirements.

The table below provides data on the credit facilities taken by the entrepreneurs:

Credit availed	Responses		% of cases
	Nos.	Percentage	
Term loans	31	45.60%	50%
Cash Credit	37	54.40%	59.70%
Total	68	100%	109.70%

Source: Field Study

Above data shows that 50% of the entrepreneurs have taken loan while 59.70% of them have availed cash credit facilities.

The duration of credit facilities availed was also covered under the present study the outcome of which is displayed below:

Duration (Years)		Amount of Credit				Total
		Upto Rs. 50 lakhs	50 - 100 Lakhs	> 100 Lakhs	Not Availed	
0	Nos.	0	0	0	69	69
	%	0%	0%	0%	100%	
3	Nos.	6	0	1	0	7
	%	85.70%	0%	14.30%	0%	
4	Nos.	0	1	2	0	3
	%	0%	33.30%	66.70%	0%	
5	Nos.	12	2	1	0	15
	%	80%	13.30%	6.70%	0%	
6	Nos.	0	1	0	0	1
	%	0%	100%	0%	0%	
7	Nos.	2	0	1	0	3
	%	66.70%	0%	33.30%	0%	
10	Nos.	1	0	0	0	1
	%	100%	0%	0%	0%	
Total	Nos.	21	4	5	69	99
	%	21.20%	4%	5.10%	69.70%	

Source: Field Study

It is clear from the above table that 70% of the entrepreneurs have not availed any credit facilities since they were coming from financially strong families and were able to finance the capital requirements on their own. Remaining 30% availed credit facilities either from banks or other financial

institutions in their initial stages of establishment.

Cost of Credit:

Cost of capital is another important parameter for availing credit facilities either from formal or informal sectors. Following table highlights the cost financing from formal channels.

Industry category		Interest Rate of credit								Total
		10	10.5	11	11.5	12	13	14	15	
Food & Beverages	Nos.	9	1	1	0	1	1	2	0	15
	%	60%	6.70%	6.70%	0%	6.70%	6.70%	13.30%	0%	100%
Stone Crusher	Nos.	9	2	0	0	6	1	2	0	20
	%	45%	10%	0%	0%	30%	5%	10%	0%	100%
Agro Based	Nos.	11	0	1	0	3	0	0	0	15
	%	73.30%	0%	6.70%	0%	20%	0%	0%	0%	100%
Textiles	Nos.	1	0	0	0	0	0	0	0	1
	%	100%	0%	0%	0%	0%	0%	0%	0%	100%
Bricks & Cement	Nos.	11	0	0	1	0	1	2	0	12
	%	73.30%	0%	0%	6.70%	0%	6.70%	13.30%	0%	100%
Chemical & Pharma	Nos.	1	0	0	0	1	0	0	1	3
	%	33.30%	0%	0%	0%	33.30%	0%	0%	33.30%	100%
Engineering and Metal Products	Nos.	18	0	0	0	2	0	0	0	20
	%	90%	0%	0%	0%	10%	0%	0%	0%	100%
Forest based	Nos.	3	0	0	0	0	0	0	0	3
	%	100%	0%	0%	0%	0%	0%	0%	0%	100%
Plastic & Rubber	Nos.	4	0	0	0	1	0	0	0	5
	%	80%	0%	0%	0%	20%	0%	0%	0%	100%
Computer	Nos.	1	0	0	0	0	0	0	0	1
	%	100%	0%	0%	0%	0%	0%	0%	0%	100%
Infrastructure	Nos.	1	0	0	0	1	0	0	0	2
	%	50%	0%	0%	0%	50%	0%	0%	0%	100%
Total	Nos.	69	3	2	1	15	3	6	1	100
	%	69%	3%	2%	1%	15%	3%	6%	1%	100%

Source: Field Study

The data above reveals that 25% of the entrepreneurs had to pay interest of 12% or more while only 6% had to pay below 12%. Although the rate of interest depends on a no. of factors, it can be considered significantly higher. In the opinion of the respondents, timely availability of credit was more important for them rather than rate of interest charged by the financing institution.

They also opined that credit availability for working capital for financing the routine operations of the industrial unit was more required rather than fixed capital. Banks were the major source of working capital in the form of cash credit. Following data gives the extent of cash credit availed by entrepreneurs in the region.

Duration (Years)		Cash Credit Amount				Total
		= 50 lakhs	50 - 100 lakhs	> 100 lakhs	Not availed	
0	Nos.	0	0	0	63	63
	%	0%	0%	0%	100%	100%
1	Nos.	26	8	3	0	37
	%	70.30%	21.60%	8.10%	0%	100%
Total	Nos.	26	8	3	63	100
	%	26%	8%	3%	63%	100%

Source: Field Study

Out of the entrepreneurs who received cash credit, almost 92% of the entrepreneurs availed credit facilities upto Rs. 1 crore which is not a significantly higher amount considering the fact that it is required in the

industrial sector where the demand for capital is always quantitatively higher.

Problems faced by entrepreneurs:

Following table highlights the major problems faced by the entrepreneurs.

Problems	Responses		% cases
	Nos.	%	N
Resources availability	19	11.50%	27.50%
Finance	28	17%	40.60%
Technical & Managerial expertise	12.00	7.30%	17.40%
Electricity	25	15.20%	36.20%
Market	21	12.70%	30.40%
Labour absenteesim	60	36.40%	87%
Total	165	100%	239.10%

Source: Field Study

The entrepreneur's faces a variety of problems; however, the most important are related to labour and capital. The problem of capital is due to delays on account of sanction of credit by banks along with higher rates of interest making it non – viable for them. In the absence of timely credit from the formal sector, entrepreneurs resort to taking finance from the informal sector i.e. money lenders and private financiers who charge higher rates of interest. Continuous supply of electricity is

another major drawback faced by them in this region. It not only disrupts the production but also adversely affects the life span of machines.

Suggestions for improvement:

It is necessary to know and incorporate the entrepreneurs view regarding important measures to be taken by the government for growth of established units as well as growth of entrepreneurship in general, in the district. These measures as suggested by the entrepreneurs are summarized below:

Suggestions	Responses		% Cases
	Nos.	%	
Education about responsibility	54	11.10%	56.30%
Infrastructural facilities	71	14.60%	74%
Entrepreneurship development programme	83	17.10%	86.50%
Skill training	83	17.10%	86.50%
Low interest rates	90	18.50%	93.80%
Association of Entrepreneurs	91	18.70%	94.80%
Other	14	2.90%	14.60%
Total	486	100%	506.30%

Source: Field Study

As per above table, out of all entrepreneurs who had expressed their views, almost all were of the opinion of setting up of Chamber of Commerce and Industries. Such an association will give them representation as well as platform to solve their difficulties and also give them chance to represent at the State level, if need arises. Similarly, 93.80% of them feel that cost of credit should be brought down which is possible only in the formal sector. This clearly indicates the necessity of specialized financial institutions to be set-up in the region. Presence of scheduled commercial banks, both public and private sector, has not solved their problem of easier and cheaper access to finance. Imparting skill training to the labour and entrepreneurship development program falls next in order. The region lacks good vocational institute to cater to these requirements.

Our Suggestions:

1. Efforts should be made to set-up Small Industries Development Bank of India (SIDBI) which is the apex institution

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for promotion, financing and development of Micro, Small and Medium enterprises sector in India to provide easier access to cheap capital to entrepreneurs. Presently, nearest SIDBI branch is at Surat which is 70 kms from the district headquarter, Vyara.

2. Vocational Institutes like I.T.I should be established to impart training to the existing and new labour force. This will help not only enhance production but also productivity giving further boost to the entrepreneurs for making additional investments.
3. Government must set-up an industrial estate by acquiring land on its own to facilitate smooth allotment of land to entrepreneurs. Under the present regulations, buying land from tribals is very difficult.
4. There should be structural programs for the tribals to encourage them to become entrepreneurs. This will enhance their social and economic status in the society.

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