

PN - AAL - 156

Volume VIII
Number 3
September 1981

Sedime

Occasional Papers

- 153 **Proceedings of National Seminar on Nucleus
Complexes**
(10-11 June, 1981)
- 226 **Proceedings of National Seminar on Marketing
of Khadi & Village Industries Products**
(31 August-2 September, 1981)

**SMALL INDUSTRY
EXTENSION TRAINING INSTITUTE**
Yousufguda, Hyderabad 500045 (India)



SEDME

**Small Enterprises Development, Management
and Extension journal**

Volume VIII

Number 3

September 1981

Editor

S. P. Goel

Editorial Assistant

Syed Majeedul Hasan

The Editor welcomes contributions on development, management and extension subjects, with particular emphasis on small industry. He reserves the right, however, to shorten the contributions for reasons of space.

Annual subscription to SEDME (Rs. 15 or £ 2 or \$ 8 US) should be sent to the Principal Director, SIET Institute, Hyderabad 500 045 (India).

Views expressed in SEDME are those of the contributors and not of the SIET Institute.

Published by D. K. Vishwanath Rao for the Principal Director, Small Industry Extension Training Institute, and printed by him at SIET Institute, Yousufguda, Hyderabad 500 045 (India).

Proceedings of the National Seminar on Nucleus Complexes

1.1 The National Seminar on Nucleus Complexes held at SIET Institute, Hyderabad on June 10th & 11th, 1981 was sponsored jointly by the Small Industries Development Organisation, Government of India and the SIET Institute.

1.2 The seminar was inaugurated by Dr. Charanjit Chanana, Union Minister of State for Industry. On 11th June, 1981, five sessions were held:

- 1. Preliminary session where papers were presented on different aspects of nucleus complexes.**
- 2. Session to discuss Theme-1 : Concept and Planning.**
- 3. Session to discuss Theme-2 : Implementation.**
- 4. Session to discuss Theme - 3: Organisational support.**
- 5. Concluding session.**

1.3 The papers presented alongwith the names of their authors are given at Annexure-I. The names of the chairmen and rapporteurs of the sessions on the three themes of the nucleus complex programme are given at Annexure-II. A list of the delegates to the seminar is given at Annexure-III.

1.4 The Hon'ble Union Minister of State for Industry Dr. Charanjit Chanana, inaugurated the seminar on Nucleus Complexes. In his inaugural speech, the Minister appreciated the role of the SIET Institute in taking the initiative in organising the seminar, which, he thought, would clarify several doubts about the concept. He said that the seminar was a part of the process of translating the concept of nucleus complexes into practice.

1.5 Tracing the historical background of the efforts for backward area development in the country, the Minister thought that even ten or eleven years after the *Pande* and

Wanchoo Working Groups had suggested criteria for identifying backward areas and incentives for their development, the areas identified as backward then remained backward even now. The basic reason for such a state of affairs was the lack of momentum and the problem was how to generate such a momentum. The nucleus complex approach was expected to provide this urgently needed stimulus in backward areas.

1.6 It was pointed out by the Union Minister that the nucleus plant approach would lead to the ancillarisation of an area. For this purpose industries both with forward and backward linkages would have to be considered. There ought to be sufficient spread-effect to transform the whole backward area into an industrially developed area. The Minister visualised that ultimately under the nucleus plant approach, ancillarisation would benefit almost every household in an area. The impact of nucleus projects should not be confined to just a few locations. This approach would also allow for the skills to be absorbed wherever they were available.

1.7 In the Union Minister's view the most important aspect, which was the kingpin of the nucleus project approach, was the technological aspect of nucleus plants and their ancillaries. Obviously, continuous updating of technology was very important. The role of a nucleus project was to help transfer of technology. The Minister suggested a network of institutions which could help such a transfer of technology down even to industry in villages so that ultimately the entire area developed.

1.8 The Minister pointed out that the implementation of the programme of nucleus complexes which was contained in the Industrial Policy Statement of July 1980 involved several steps. Initially the Chief Ministers of all States were requested to identify two districts or areas equal to two districts for launching the programme. The process included visits of a Central Task Force to select nucleus projects and to identify ancillaries and prospective entrepreneurs. This exercise had already been completed in some States and was being extended to other States.

1.9 The Minister thought the seminar would be helpful in crystalising the concept of nucleus complexes.

2.0 Preliminary Session

2.1 At the outset Dr. Ram K. Vepa*, welcomed the delegates to the business sessions. In his preliminary remarks Dr. Vepa introduced the subject of nucleus complexes and initiated discussions. He hoped that the delegates would discuss practical problems and difficulties, linkages with other programmes and implementation aspects of the nucleus complex programme. This concept, he thought, was a powerful vehicle for the development of backward areas. He also remarked that the objective of the seminar was to look at the problems carefully.

2.2 The session started with presentation of the summaries of the reports prepared on the nucleus complexes in Chandaka in Orissa state, Goindwal Sahib in Punjab and Medak in Andhra Pradesh. This was followed by presentation of papers prepared for the seminar. The theme paper of the seminar was presented on behalf of the SIET Institute.

3.0 Theme - 1: Concept and Planning

3.1 This session considered the following aspects:

- 1) Improvement over earlier approaches
- 2) Alternative approaches to backward area development
- 3) Special characteristics of nucleus complex programme
- 4) Machinery for planning
- 5) Criteria for identification of complexes and plants.

3.2 The first theme session on "Concept and Planning" started with an introduction by the Chairman. In his remarks a number of issues which could be discussed in the session were raised. To begin with, the nucleus complexes programme was one aspect of the existing industrial policy. Historically, the industrial planning that has already taken place in the country was to be borne in mind while discussing this new strategy because continuity is an important aspect. The related issues are:—

- I. Available incentives which are broadly of four types:
 - a) Capital subsidy

* Development Commissioner, Small Scale Industries, Government of India.

- b) Concessional finance
 - c) Income tax concessions
 - d) Transport subsidy for areas which are inaccessible
- II. Industrial Estates Programme - Functional industrial estates and ancillary industrial estates have relevance to the nucleus plant programme.
- III. The extent to which outside advisory support could help the entrepreneurs e. g: SISI, State Corporations, R & D institutions which have advisory role, leaving the entrepreneur to take decisions himself.
- IV. The ability to look for structural integration insofar as they have relevance to the present programme.

3.3 In the past there have been successes and failures. For example, it is said that subsidies have gone only to limited areas and there is also the criticism that subsidisation has not been enough.

3.4 The Chairman remarked that infrastructure has a wider connotation. It does not mean just power and roads etc., but it also means access to sanctions which will give the ability to get quick results. The commercial aspect of infrastructure is often forgotten. No costing was done for infrastructure as it developed historically. As regards planning for infrastructure, the issue is whether infrastructure and industry should be planned together or the former should precede the latter. The important point is that trade linkages are as important as existing resource linkages.

3.5 Linkages include both forward and backward. The definitions of these linkages have to be very clear. Not all nucleus plants will have the same level of linkages. It is, therefore, necessary to identify the industry with linkages which can be promoted. The question of choosing the nucleus plant areas is also important. One should look for worthwhile locations where the cost to be incurred on infrastructure will be minimum.

3.6 The issue whether the nucleus plant approach was different from the area development programme was also an important aspect to be considered. Essentially in the nucleus plant programme what was being attempted was a pre-determined

path of industrialisation. The nucleus plants and ancillaries could be developed at one location or can also cover a wider area. The exact number of mother plants and ancillaries had to be pre-determined. In this programme, the aim was to introduce discipline so that small industry could be related to what could be absorbed by linkages.

3.7 The Chairman said the technology transfer was an important part of the programme. This, to a large extent depended upon the scale of operation and also the type of product. Summing up, the Chairman said that the nucleus plant approach was an attempt at a certain point of time to create a pre-determined path of industrialisation.

3.8 During discussions a point was raised that under the nucleus complexes programme, infrastructure was planned for a certain location and finance was provided by the financing institutions. This, it was thought, was planning before the need was there. The other point raised was that the nucleus complexes programme assumed automatic cooperation amongst different sectors. There would be difficulty if this cooperation was not forthcoming even at one level. It was thought that this sort of assumptions could not be taken for granted and if there was failure even at one point, this would bring grief to many.

3.9 The issue of selection of industry was raised which was an important aspect of the nucleus complex programme. While one delegate from the North-Eastern region felt that this programme had no relevance to the North-Eastern region, another delegate from the same region felt that it was useful. However, it was mentioned that the selection of industries for this particular region had to be based on considerations of heavy transport cost and marketing aspects. The issue of reservation of items for areas such as the North-Eastern region was also raised. There was considerable discussion on the products which were amenable for nucleus complex programme. It was felt that a study could be taken up for identifying industries which are suitable for nucleus complexes. The identification had to be done bearing in mind the potential for linkages.

3.10 As far as the location aspect was concerned, the discussion revolved round whether a comparatively developed

area with minimum infrastructure had to be chosen. It was also felt that the nucleus complex programme should be clearly defined so that we may not change the priorities that were assigned so far. Moreover, there was no need for a distinction between a nucleus complex approach and area development approach.

3.11 It was also pointed out that no systematic cost benefit analysis was made regarding and programme for development, particularly infrastructure. There was not even a definition of what was meant by infrastructure and no single definition was followed uniformly in different parts of the country. Very often marketing infrastructure, that was quite important, was forgotten. Marketing was as important as manufacturing.

3.12 The Chairman summarised the discussion and felt that the existing on-going industrial programmes would continue but emphasized the need for nucleus complex approach in the relatively backward areas.

4.0 Theme - 2: Implementation

4.1 This session was devoted to the following points:

- 1) Are additional incentives necessary?
- 2) Pattern of finance
- 3) Infrastructure development
- 4) Entrepreneurship
- 5) Development of managerial and technical skills through training.

4.2 The Chairman mentioned that there were 4 stages for implementation of the programme:

- a) Criteria for selection
- b) Financial incentives
- c) Role of state and central promotional agencies
- d) Licensing as an instrument for industrial dispersal.

4.3 The most significant aspect of the programme was the selection and identification stage i.e., how to select, who would select and what criteria could be accepted. The original concept of providing incentives for 20-30 districts as suggested by the *Pande* and *Wanchoo* Working Groups had been diluted by

the Planning Commission and the incentives were extended to a large number of districts spread all over the country. Referring to the financial incentives of budgetary and non-budgetary types, he stressed the need to think of new ways of mobilising resources for the nucleus plant programme. For a massive programme like nucleus complexes which was an instrument contemplated over and above the existing policies for industrial dispersal, additional finances had to be made available at concessional rate. Differential pattern of incentives needed to be developed to cater to the new pattern of industrial development envisaged under the programme so as to offset the disability with which industrial units would have to start their units in the identified locations. Licensing being a negative instrument, he suggested that a few positive instruments might be evolved to handle this programme.

4.4 During the discussions, the following points emerged:

- a) Backward areas in advanced States had to be distinguished from backward areas of less developed States and those, in turn, from the less developed regions like the North-Eastern states
- b) Differential pattern of incentives had to be devised for offsetting the disadvantages expressed by the entrepreneurs in these areas. Instances were cited of the North-Eastern region where the capital subsidy of 20 per cent of the project cost was given. In addition to this, a proposal was on the way for modifying the transport subsidy to include rail-cum-road transportation.

4.5 The Government of India had decided to give greater weightage to the North-Eastern region to facilitate quicker industrialisation. Accordingly, the House suggested differential pattern of incentives with greater weightage for the less developed areas. Other suggestions put forward for attracting nucleus plants to backward areas were as follows:

- a) For covering the risk of the innovator, a pioneer status was to be given for the first units developed in backward areas;
- b) Declaration of tax free zones
- c) Greater weightage to employment-oriented units and non-resident Indians interested in setting up units in the country might be encouraged

- d) Specific type of new pattern of concessional finance and
- e) Uniform tariff rates of electricity and proper administration of incentives and removal of administrative bottlenecks.

4.6 It was emphasized that incentives in themselves were not the only pre-condition for bringing about rapid industrialisation. Sufficient importance and weightage were to be given in favour of building up adequate physical industrial and social infrastructure simultaneously with the establishment of industrial units to ensure social facilities as well as better living conditions for entrepreneurs and also the workers. Regarding the allocation of additional funds for infrastructure for nucleus plant locations, it was mentioned that the Planning Commission could make an overall assessment of the requirement of the programme and provide for additional resources since this was a new programme launched in the current plan period.

4.7 Goidwal Sahib and Chandaka nucleus plant locations were not eligible for capital subsidy or concessional finance. It was suggested that if more areas under this category were identified by the backward States because of the potential for development they should be provided with the additional incentives not normally applicable to forward areas. While referring to the recommendations made by the *Sivaraman Committee on Development of Backward Areas*, it was pointed out that the growth centre approach indicated in the *Report on Industrial Dispersal* brings out certain criteria for identification of growth centres and administration of incentives. It was suggested that the nucleus complexes need not necessarily be planned only in locations identified because of the special prerequisites needed for the new projects. A package programme of assistance needed to be evolved taking into account the special requirements of the nucleus plant approach. This included investment on social structure which was expected to be substantial. Promotion of industries with backward and forward linkages based on certain advantages that the region had. Industries based on the import of dominant resources from other regions could also be planned.

5.0 Theme - 3: Organisational Support

5.1 The following aspects were considered during this session:

- 1) Can the existing agencies at the district and the State level cope up with the task in the present or in a modified form?
- 2) Is there a need for a new organisational setup—the level and status of persons manning it?
- 3) Desirability of inducting personnel from professional or administrative cadre. Advisability of drawing them on deputation, contract or on a permanent basis; and
- 4) Coordination among development agencies at various levels.

5.2 The Chairman, in his opening remarks said that the organisational structure was very important in the context of implementation. It was necessary to suggest proper machinery to undertake implementation of the nucleus complexes. It should be recognised that the conditions varied from State to State and a uniform pattern might not be feasible or desirable in all the States. It was, therefore, desirable to suggest or recommend a basic pattern which could be adopted with modifications.

5.3 Considerable discussions were held as to whether the existing structure of District Industries Centres (DICs) could be utilised for promoting nucleus complexes. It was felt that DICs were not equipped to undertake this responsibility and new organisational structure should be set up to meet this challenge.

5.4 The organisational support visualised for some of the complexes was also to be taken into account. For instance, the complex at Chandaka was manned by the Chandaka Industrial Development Agency (CIDA). There was a Project Director heading this agency and he was assisted by experts. However, the formal structure of this agency was yet to be decided.

5.5 The other pattern discussed was of Goindwal Sahib in Punjab where an Industrial and Investment Corporation had already been set up for nucleus complexes. The State Government had also procured land for it and it would run as an autonomous body.

5.6 The organisation suggested for nucleus complexes in Medak had possibly two options. One suggestion was to have a Medak Industrial Development Authority (MIDA) which might be headed by a Development Commissioner and which would have members in the field of technical, financial, infrastructure and administrative disciplines. Another suggestion was to have a Steering Committee at the State level with the Secretary (Industries) as its Chirman. There would be Development Commissioners for 3 districts where complexes were visualised and the Steering Committee could have members from organisations who were concerned with the development of complexes.

5.7 Members of the Seminar dwelt at length whether the agency concerned with the development of complexes should be a coordinating agency or should be an authority vested with legal powers. One point of view was that it should act as a coordinator so that it could act as a catalyst and accelerate various activities pertaining to the complexes. Another viewpoint was that if it was converted into an Authority, which might also involve amending of Acts, it should be armed with necessary powers so that it could take decisions on its own. The consensus appeared to be that it could act as an amalgam of both.

5.8 Discussion was also held on how to raise resources for creating these complexes. Besides budgetary grants, it could also devise ways and means to attract investments so that funds could be utilised for development purposes. One of the important points made was that remittances of non-resident Indians was so far being used for non-productive purposes. Non-resident Indians might like to invest their savings for productive purposes and some of them might eventually like to return to the country too. Subject to the permission of financial agencies like RBI and IDBI, agencies concerned with the development of nucleus complexes should also be allowed to float bonds and attract money from individuals who had not so far thought of investing it for development of industries in the country.

5.9 It was also felt that the agencies concerned with the development of complexes should have appropriate linkages with existing technological institutions so that processes could

be developed for industrial exploitation of resources and technological transfer could be facilitated in these complexes.

5.10 There was consensus on the issue that instead of a number of agencies in a State for different complexes, it might be desirable to have a single agency which would deal with different complexes in the State. The Project Director in the agency should be a coordinating agent. The powers vested in the Directorate of Industries could be delegated to the Project Director.

5.11 However, with different conditions prevailing in different states, members found it difficult to suggest a single organisational pattern and thought it best to leave it to the states to decide their own organisational pattern for developing nucleus complexes. As more experience was gained on developing these nucleus complexes, probably one could state more confidently as to what was the ideal form of organisation for developing different types of complexes in the country.

6.0 Concluding Session

6.1 Dr. Ram K. Vepa, Development Commissioner (SSI) summed up the discussions that took place in the three theme sessions during the day. While acknowledging the fact that such a seminar could not be expected to come up with solutions, it was pointed out that it served a very useful purpose in bringing to the fore several issues relevant to the subject. On the whole the seminar did consider important questions such as:-

- i) what was new about this programme?
- ii) was there a need for nucleus plant programme?
- iii) how to identify areas and industries which qualified as nucleus plants?
- iv) what role should incentives play?
- v) how to fund such a programme, and
- vi) what organisational set up could be thought of?

6.2 It was said that the question of whether there was any thing new about nucleus complex approach was a semantic one. The answer was both *yes* and *no*. The present approach draws upon the earlier programmes, viz., ancillary development programme in establishing linkages between small and

large industry, the backward area development programme etc. The nucleus complex approach was a methodical one systematising the earlier programmes.

6.3 Regarding the question whether there was need for nucleus complex approach, the answer was again *yes* and *no*. It was true that basic infrastructural facilities might be sufficient for generating industrial activities in some parts of the country, but in other parts these might not be sufficient. It was necessary to create certain stimulus and awareness. The present approach would produce such an effect through stimulating public and private entrepreneurship. It would act as a catalytic agent.

6.4 The dilemma in respect of the choice between areas with some potential and areas which were really backward had never been resolved. In certain cases it was desirable to start with areas which were having some potential e.g., Chandaka in Orissa was such an area.

6.5 Identification of industries also posed problems. It was not always possible to think of industries based on local raw materials because these were neither adequate nor found in large numbers. Further the technology for utilisation of local raw materials was also not readily available. While selecting industries, therefore, we would have to compromise in utilising the local raw materials and amenability to ancillarisation. Mineral based industries had limited ancillary possibility. The general engineering industry and electronics would constitute the core group of nucleus plants.

6.6 The question of role of incentives had been discussed quite intensively. Here again the answer depended on a particular situation. Considerations such as how much role do incentives play, or should play, in investment decisions of the entrepreneurs were important. It was also to be examined whether the entrepreneurs should be left free to take investment decision. There were areas where too many incentives introduced distortions and also areas where incentives triggered off a growth of investment. Therefore, a judicious policy of incentives was to be evolved without either over-emphasising or shutting them off totally.

6.7 The problem of linkages with other programmes was also

to be considered. The whole strategy of backward area development should remain, of which nucleus complex strategy formed only one element.

6.8 In regard to funding, there was no difficulty in attracting new funds. However, it must be realised that the commercial banks had to be convinced that this was growth sector and not a subsidy sector.

6.9 While considering the organisational support the question regarding the role of Project Director and the type of functions he performed was very important. By whatever name we call him, a Project Director or something else, the type of man was important. His ability to get things done, and the impact he was able to make were so far more important. Therefore, the type of people who were going to take up this responsibility was crucial.

6.10 There was also the question of developing human resources. Can we, through this programme, develop human resources? Can we through this programme develop the type of abilities, attitudes and skills which were necessary for the growth of the economy? Nucleus complex programme can bring out the dormant entrepreneurship, with the backing of promotional agencies.

6.11 Ultimately the success or failure of this programme would depend on how we were going to make an impact on human resources which did exist in the country in large measure.

6.12 Shri S. G. Raghu, Principal Director, SIET Institute proposed the vote of thanks and thought the discussions were very useful and would help in clarifying the idea. He, however, thought that social aspect of the nucleus complex approach should have been given necessary importance in the discussions. He hoped this comprehensive programme for backward area development would bring better results and lead to an overall development in the regions which had not developed sufficiently so far.

**List of Papers presented at the National Seminar
on Nucleus Complexes**

- | | |
|--|---|
| 1. Nucleus Industrial Complexes – The Concept and Challenge | M.A.K. Lodi
SIET Institute
Hyderabad |
| 2. Entrepreneurial Development and Nucleus Complexes – A Banker's view | V. Srinivasan
SBI, Bombay |
| 3. Criteria for Identification of Industries and Location within the Backward Districts for Establishing Nucleus Complexes | K.C. Narayanan
SISI
Hyderabad |
| 4. Nucleus Plants and Backward Area Development | B. Sudhakar Rao
SIET Institute
Hyderabad |
| 5. Viability of Nucleus Plant – An Entrepreneur's view point | R.K. Mehta
Industrialist
Hyderabad |
| 6. Entrepreneurial Development vis-a-vis Nucleus Industrial Complex in Medak District | K. Venkateswar
Rao
SBI, Hyderabad |
| 7. Basic Issues relating to the Nucleus Complexes Strategy (Paper circulated to delegates but not presented at the Seminar) | N.R.K. Swamy
SIET Institute
Hyderabad |

-(O)-

Nucleus Industrial Complexes : the Concept and Challenge

M. A. K. Lodi*

Introduction

The Indian economy has experienced considerable growth during the last 30 years. The industrial growth also has been quite impressive in terms of production as well as diversification of the products. The industrial programme as envisaged by successive industrial policy resolutions emphasised the relative roles of large, small and cottage industries. This has been necessary in view of the scarcity of capital and mounting problems of unemployment in the country. The strategies adopted so far for industrialisation largely have had the objectives of generation of employment and dispersal of industries to achieve balanced regional development. The focus of the small industry programme is essentially to create avenues of employment and for utilisation of local skills and resources. Though the small industry programme itself has come to stay and has got firmly established in the Indian economy, the problem of balanced regional growth has not been solved. In fact, over the years, certain regions have remained underdeveloped while others have made rapid progress. Industries have not come up in certain areas though there was accelerated development of industries in certain other regions. Such an uneven development led the government to consider and evolve strategy for the development of backward areas. This strategy involved selection of backward areas on the basis of certain criteria (Pande Committee) and provision of incentives for setting up industries in these areas (Wanchoo Committee). However, even these measures did not have the desired impact on the development of backward areas. Whatever little industrialisation that took place as a result of the measures, was mainly confined to the outskirts of

*Paper prepared by Shri MAK. Lodi, Faculty Member, SIET Institute, Hyderabad.

The author is grateful to Dr. Ram K. Vepa, Development Commissioner, Small Scale Industries, Government of India, for his valuable suggestions.

the already developed metropolitan cities. One of the main obstacles in the spread of industries to backward areas was the lack of infrastructure and entrepreneurship in those areas, a phenomenon which proves that incentives alone will not help. Even here government has thought of several programmes like the industrial estate programme, which have met with partial success only.

Earlier Efforts

Efforts have been made in the past for accelerated industrial development while formulating these programmes. Special emphasis was laid on backward areas. Looking back, however, it is felt that these programmes have considerably helped those centres which already had made some progress and the assistance provided could be availed of. These were mainly the urban centres, wherein an industrial base already existed. But the impact on backward areas, particularly the semi-urban and rural areas, was not commensurate with the efforts made.

Industrial Estates Programme

One of the efforts was to strengthen the infrastructure through the promotion of industrial estates. The approach to industrial estates proved effective where entrepreneurs were hunting for basic physical infrastructure existed. With availability of industrial estates, an entrepreneur could just walk into an estate, order for machinery and start production. Thus, a lot of delay in starting industries could considerably be reduced through the mechanism of industrial estates. However, this did not yield results in areas where the level of industrial activity was low. With the result, industrial estates acted as a catalyst in large and metropolitan towns only, but failed to attract industries in smaller towns, semi-urban and rural areas.

Growth Centre Approach

One of the approaches adopted to develop backward and rural areas was through the promotion of growth centres. Under this approach, a centre or centres in a region were selected. Growth centres are nuclei or central to their hinterland. During initial stages the concept of growth centres

provided a methodology for balanced development in an area. A growth centre is an urban core with a rural hinterland, capable of growth. Thus, these centres were having better infrastructure facilities and were serving as the meeting place for the people in the neighbouring areas for commercial, educational or other purposes. Any development made was expected to percolate to the adjoining areas, in turn leading to their development. But the main lacuna in this approach was that it did not provide for income generation. A growth centre was more of a checkpost rather than providing an industrial base for a particular area or region.

Ancillary Development

Another attempt to link growth of small industries with the overall growth was through the relationship of small units with that of large scale units. This relationship, known as ancillary relationship, could fairly accelerate the process of industrialisation where large scale units were ready to place their orders with the smaller units. Ancillary units could be assured of a market for their products which solved a major difficulty for small industries. Large scale units could keep ancillary units busy by placing orders in the field of spares, components and even job-work. In many industrial belts, there has been a phenomenal growth of ancillary units, as a result of patronage received from large scale units. It also helped large scale units by reducing their production head aches and considerably reducing their overheads in respect of items which required lesser sophistication. Thus, these large scale units could concentrate on precision items and items which required greater sophistication. There was, thus, an informal division of labour between large units and ancillary units. This relationship could work to the advantage of both the sectors, where policy of the parent firm was of a developmental nature. But it did not yield results, where the large scale sector did not come forward. With the result, the pace of ancillarisation in the country has been slow and has failed to give the necessary impetus to industrial growth in the country.

In the concept of ancillarisation, the role of mother unit has been assigned to the large unit which fosters the growth of ancillaries around it by providing all possible

assistance which may be in the shape of technical know-how, design, testing of products, raw materials and sometimes even finance.

The development that has taken place in India since the programme for ancillarisation was launched, indicates that the development is not according to expectations.

In the private sector, excepting in the case of a few enlightened enterprises, not much progress has taken place in this direction. Even in the public sector a number of problems has arisen, and in many cases, the relationship between the mother unit and the ancillaries has not been cordial. This development is rather unfortunate and indicates that the programme has somehow faltered somewhere.

For a balanced industrial development, both small and large industries have to be complementary to each other. The ideal system is where small industries manufacture different parts and components and the large unit assembles the final product and markets it under its brand name. The arrangement is mutually advantageous both for the principal firm and also for the ancillary unit. For the principal units, the potential benefits are:

1. Lower production costs since small units have low overheads and labour cost;
2. Greater flexibility to respond to changes in demand with lower capital investment and a smaller permanent workforce, reducing break-even production levels;
3. Utilisation of specialised equipment and skills, which would not be justified for a single principal firm, and
4. Lowering of carrying cost and also working capital requirements.

On the other hand, the ancillary units also benefit from the arrangement. Some of the benefits are:

1. Access to market, otherwise not available, and avoidance of selling problems,
2. Availability of guaranteed orders, and
3. Service facility from the principal firm, design, raw material supply, quality control, and technical assistance, etc.

Japan and Switzerland are good examples of developing mother-ancillary relationship in the industrial sector. This system has worked wonders for the Japanese economy. Over 50% of small industries in Japan now serve as ancillaries and over 40% of small units depend upon large firms for over 70% of their total sales.

Historically, in Japan the concept of a parent company depending upon small enterprises for supply of parts developed with a need for increasing production particularly during the Second World War. Smaller enterprises were commissioned by large industry to process those parts which did not need much of specialised skills or costly equipment. The system, however, continued even after the war because it was found that small enterprises could process integral parts for the machines assembled by large producers.

There was considerable encouragement from the government also. The sub-contractors began to be regrouped under single assemblies for structural modernisation and they were urged to form cooperative organisation for getting loans from the Central Bank for commercial and industrial association. An example of the sub-contracting system in machinery industry would illustrate the benefits of such a system. The majority of the establishments in the machinery industry in Japan are small enterprises and they are sub-contractors to large machinery establishments. The machine parts manufactured are sub-contracted to small and medium enterprises while final assembly is done by large enterprises. In fact, the factories and shops of the small enterprises work like branch factories and shops. The integrated system of working has even led to the stage that parts processed and the products half finished by many sub-contractors are accepted without inspection by their assemblers. The large assembler-sub-contractor groups are found in production of some domestic electrical appliances and of motor vehicles. In order to bridge the technical gap, the large assemblers started to provide technological and financial aid to the contractors. The types of technological assistance extended by machinery assemblies were: technical experts service, management consultancy service and personnel exchanges, in that order. The types of financial aids were mainly money lending, capital participation leasing of real estate property, machine tools, other equipment

and facilities. Quality control, industrial engineering value analysis and other management techniques were fairly practised for quality improvement and cost reduction.

While such great advantages are there, the real difficulty of a sub-contractor is the dependence on the mother unit. However, to overcome this problem, the government has offered its support for their cooperation and merger. They are even encouraged to cater to a number of other assemblies. Thus, the industrial structure has become dependent on sub-contracting to small enterprises in Japan to a great degree.

Industrial Complexes

Industrial Complexes has developed in different parts, of the country around a particular nucleus resource or due to the availability of skill in particular trade. These complexes have gradually come up more as isolated areas and fortuitously rather than by any planned effort by anybody. Sometimes the pioneering work done by an individuals has shown the way to his neighbours and they have followed his footsteps.

Rajahmundry in Andhra Pradesh for instance, has developed as the main centre in the country for the manufacture of graphite crucibles. Graphite is available locally and is also obtained from Orissa as well as being imported from Sri Lanka. This was a resource based activity which came up due to the pioneering efforts of an individual.

A complex has developed in Mandya in Karnataka around the sugar industry. Surendrenagar in Gujarat is an example of an industrial complex, based on locally available skill. Automobile parts manufactured here are sold not only all over India, but also exported to foreign countries. The raw materials are obtained from outside and the marketing is also mostly done outside the area. An interesting feature of this development is that most of the entrepreneurs who have established their industries in this area were earlier working in large or medium enterprises. After gaining sufficient expertise as well as confidence, in themselves, they left the jobs to become entrepreneurs themselves.

As mentioned above, such complexes have grown up on their own and the relationship binding different units, have

not been planned in a proper way. Moreover, we cannot expect such fortunate developments wherever they are required.

There are also some cases of development of small complexes as a result of efforts made by some enterprises. The HMT and the BHEL and some other large enterprises for instance, developed ancillary industrial estates in the vicinity of their factories. Such complexes are small in nature with limited objective and their success has sometimes been doubtful.

Backward Area Development

In view of the widening of the regional imbalances in several parts of the country, the government have formulated policies to develop the backward areas. The efforts included the designation of areas as backward based on the criteria suggested by the Pande Working Group. These criteria were based on indicators, like total per capita income, per capita income from mining and industry, etc. On the basis of these criteria, certain districts were selected as backward districts. The Wanchoo Committee recommended incentives like grant of subsidy to units located in a backward area, transport subsidy and tax incentives. In addition to the Central Government incentives, State governments also provided incentives such as provision of infrastructural facilities, subsidised rates of power, water, etc. Even concessional finance was offered to the units. But all these factors did not result in the growth of industries in the backward areas as expected. Some of the studies made on the impact of the incentives have indicated that the benefit went to the developed States. Also the units which had linkage effect constituted a small percentage of the total number of units set up in backward areas. According to one study, 36% of the units which accounted for 42% of the project cost had no linkages and was in the category of "foot-loose industrial units". The units which, *prima facie*, had forward and backward linkages accounted for only 8.4% of the project cost. ("Development of Backward Area through Incentives - an Indian Experiment", K. S. V. Menon, 1979).

Nucleus Complexes

The Industrial Policy Statement of July 23, 1980 contains a new thrust on the ancillary development programme to make it provide more social benefit. The Statement has introduced the concepts of "Economic Federalism" and "Nucleus Plants". The Statement says "it will be the Government's endeavour to reverse the trends of the last three years towards creating artificial division between small and large scale industry under the mis-conception that these interests are essentially conflicting. While making all efforts towards integrated industrial development, it is proposed to promote the concept of economic federalism with the setting up of a few nucleus plants in each district identified as industrially backward to generate as many ancillaries and small and cottage units as possible".

Earlier approaches adopted for development of an area was based on existing resources and the demand which may be exploited for industrial purposes. While this approach could develop an area and would also use local resources, the snag continues to remain namely, the level of income of a typical area - either a district or a block is at such a low level that hardly any development can take place. The scope for establishment of industries based on local demand has been extremely limited particularly when more than 50% of the population has been below the poverty line. The nucleus approach attempts to radically change an area by generating industrial activity to a level so that the bulk of population crosses poverty line and is brought into the main stream of economic activity. The advantage of this approach over the other approaches is that it changes the entire complexion of an area and takes it out from the vicious circle of a low income resulting in low investment and low demand. The development in a backward area through nucleus complexes will generate income, which will serve as the fountain head for the creation of other related activities, which in turn will lead to more employment opportunities and the generation of additional income.

The nucleus complex approach has an in-built provision for upstream and downstream linkages. These linkages are taken care of at the planning stage itself and will have automatically to be established as the programme progresses. This provides better approach to the nucleus complex scope in fulfilling the objective of overall development of a backward area.

Certain units may have backward linkages which result in their establishment prior to the setting up of nucleus complexes. Again, some of the units would have forward linkages in as much as they crop up as a result of the establishment of nucleus units. Perhaps the strongest point of this approach is it takes into consideration backward as well as forward linkages - a phenomenon which was either missing in earlier approaches or was accidental.

Agglomeration of industrial units in areas where there is already heavy concentration of industrial activity results in over investment and increases social cost. For example, investment in public utilities and allied services is of a very high order in large and metropolitan areas. It was estimated that for every additional worker who enters employment market, an expenditure to the tune of Rs.10,000/- is incurred by way of investment in public utilities. This figure, which was arrived at by the Gokhale Institute and quoted by the Wanchoo Committee obviously is outdated and if this is revised/based on considerations of price rise alone, it is likely to be in the neighbourhood of Rs. 20,000. Emerging new nucleus complexes can prevent this enormous social cost which could be diverted for generating amenities and public utilities in backward areas. Besides, it could be used as an instrument for decentralised industrial activity and could act as a safeguard to prevent ecological imbalances.

This concept is now conceived as a total integrated programme for development of selected backward areas by setting up large and medium scale nucleus plants along with large number of upstream and downstream ancillary industries around them.

An overall planning strategy is being employed to identify industries and provide all necessary inputs in the area in the shape of infrastructure, finance, raw materials, skilled manpower, common facilities, including testing laboratories, marketing outlets and other institutional support. This will open new possibilities in the tertiary sector like marketing, packaging, service industries, etc. The backward area will thus get a powerful thrust towards industrialisation. Social costs involved in this process are likely to be high. But this has been conceived as a deliberate attempt to give a fillip to the idea of economic federalism through the establishment of nucleus plants in the backward area.

Methodology

As will be apparent, all backward districts in the country - which are large in number - cannot be simultaneously brought under the above programme because of the huge amount of investment required. A selective approach has, therefore, been made and the Ministry of Industry approached the State Governments to select atleast two districts initially for intensive assistance. After the districts are identified suitable integrated developmental plans are being prepared for such areas. Task forces comprising members from Central and State Governments, State and Central public sector enterprises and promotional and consultancy organisations have been/are being constituted for each State for selection of nucleus complexes. Plans are being made alongwith their possible ancillary linkages and estimates are made of investment and employment opportunities. Needs of infrastructural inputs and the agencies for implementation within a suitable time frame are also being identified. Such exercises have already been made for:

- | | | |
|-----|-------------------------|---------------------|
| i | Gowindwal Sahib | in Punjab |
| ii | Chandaka | in Orissa |
| iii | Medak | in Andhra Pradesh |
| iv | Kangra and Solan/Sirmur | in Himachal Pradesh |

A Total Approach

The approach in the nucleus complexes programme is total as compared to the programmes launched earlier. The industrial estates programme tried to tackle one problem-provision of infrastructure facilities. The ancillary development programme is now over twenty years old and still we are considering measures by which its success can be ensured. Generally, ancillaries are planned after a large enterprise has been established. Spare parts and components for ancillarisation may be identified by an enterprise at the planning stage but generally the efforts required or identification of entrepreneurs and the other details are taken up much later. There has been a tendency on the part of large enterprises to manufacture as many parts and components, etc., as possible under their own roofs. A considerable period after the programme for ancillary development was launched, we find that we have yet to cover

much of the ground. The large and small enterprises by and large, continue to function on competitive basis and the market position is becoming more and more difficult for small units. The complementarity between the sectors, where the small units manufacture parts and components and the mother unit assembles and market the products, is far from being within reach. Large enterprises may not necessarily be established in backward areas. The nucleus complexes programme, however, is meant exclusively for backward areas. This single factor makes it significantly different from the programme of ancillary development.

The concept for nucleus complexes and nucleus plants is a total approach, which presents a comprehensive programme and it expected to overcome the major problems faced in the programmes launched earlier.

In an area, say a district, certain location or locations are identified for development of nucleus complexes. This related to area marked out for industrial development. For each complex, nucleus plants are identified. Explaining this concept, the Minister of State for Industry mentions in his letter to Chief Ministers "the operative instrument of this concept is to plan and build the momentum of industrial growth in backward areas through nucleus plants with necessary forward and backward linkages in the shape of ancillaries. The ancillarisation effects of this new scheme would promote a spread effect through the generation of higher employment, dispersed investment and higher per capita income of the people in the area.

A large number of small units could be developed in a backward district and a nucleus plant set up to provide common facilities, designs and documentation, testing facilities as well as marketing support. These basic service units are designed to ensure the technological competence, manufacturing excellence and also effective marketability of the products of small industries clustering around them. If a large number of small industries are developed basically combined to one or two products, it should be possible for the nucleus units to take over the marketing under their own brands.

The other type of formation could be that the nucleus units is basically set up to provide for assembly as also in

house production of such items as cannot be procured from ancillaries. The other assemblies and sub-assemblies and components will be off-loaded to a large number of ancillaries, which would be producing the designs and specifications for the nucleus units. If an assembly or sub-assembly is off-loaded, it is conceivable that in future the small unit to which it is off-loaded will itself grow into a nucleus unit having cluster of suppliers around it. The benefit of this movement should percolate down to villages through generation of workshops.

The Approach

Different approaches may be adopted in actual planning for nucleus complexes. The plan prepared for Puri district in Orissa state, for instance, has identified only one location, Chandaka, to be developed as an industrial complex. It is close to Bhubaneswar and is also easily accessible from Cuttack, Baran and Khurda. The infrastructural facilities are relatively good. The nucleus plants suggested for Chandaka are 28 which fall under four broad groups. The likely investment for 13 plants is estimated at Rs. 173.70 crores. The number of ancillaries identified for the nucleus plants is 15 with a likely investment Rs. 535 lakhs.

In Medak district of Andhra Pradesh, four complexes have been identified - Sangareddy, Zaheerabad, Medak and Sidjipet. The number of nucleus plants identified for these four complexes is 25. The capital investment requirement for these plants is Rs. 181.91 crores. The number of ancillaries identified for 25 plants is 170 with an estimated investment of Rs. 18.16 crores.

With the exception of Sangareddy, the other three centres are not well developed as far as infrastructural facilities are concerned.

Problem Areas

The scheme of industrial complexes is an improvement in the efforts made so far towards an approach for industrial promotion in backward areas. There may be certain problem areas which may be pointed out here.

1. Selection of backward district/area

Each State has a large number of districts/areas declared as backward. Since location plays a major role in the success of an industrial venture, it is of utmost importance that the most potential district/area should be selected for the establishment of nucleus complexes. Going to the most backward district in the State at the first instance may put unnecessary strain on the resources available and the venture may not prove economically successful. Even within the backward district/area selected, most suitable location has again to be identified which might be growth centre or a focal point and which has some natural advantages.

In the second stage of planning for nucleus complexes it may be possible to go to district/area which is comparatively more backward. It is expected that the areas in the neighbourhood of the nucleus complexes will in course of time grow and it may be possible to develop them further through the establishment of nucleus complexes. In view of scarcity of resources it is quite obvious that we have to adopt a selective approach so that the returns will be commensurate with the investment made.

2. Selection of Nucleus Plant

The choice of the mother plant is a crucial one because ultimately the success of the entire programme will depend upon it. There is no doubt that the activity has to be economically viable and one which can sustain itself, after taking into account the incentives that are already available. In all probability, the activity would be resource-based, skill-based or sometimes foot-loose and market-oriented. Unless justified on a long term demand perspective, the profitability will be doubtful and the economic growth may not come about. If this happens, the fate of ancillaries also be in jeopardy.

3. Ancillary Industries

In this programme, the identification of items of upstream or downstream production is very crucial and has to be undertaken carefully. The important factors to be kept in view are regular and sufficient demand for the product manufactured, the economic viability of the unit and the availability of the necessary inputs such as raw materials, power,

water, skills, technical know-how and finance. Our experience of the ancillary development programme indicates that price fixation is an important issue. An effort has to be made in advance for devising a formula for fixing the price of ancillary products, which is satisfactory both for the mother as well as the ancillary unit. Its importance cannot be over emphasised if we remember the fact that this is a major irritant between the mother and ancillary units today. The other factor which is also to be worked out in advance is the payment schedule. This again, is an irritant affecting the cordial relationship between mother and the ancillary unit.

Care is also to be taken to ensure the quality of the product and the delivery schedule. All these factors will spell either success or doom for the ancillaries. As these ancillaries will be located in a backward area they might need more help and protection from the mother unit. They may however, look for outside markets beyond the district or attempt to diversify as they grow. This may save them from the predicament of rising or falling with the fortunes of the nucleus plant.

4. Infrastructure

Industrial development has a pressing demand on the provision of physical and industrial infrastructure facilities such as water, power, developed land, sheds, housing, rail and road links, communication facilities, etc. Social infrastructure facilities are also equally important. All these are a must for economic functioning of industries and they must be available in time. Industrial complexes are being developed in backward areas which will be poor as far as the existing infrastructure facilities are concerned. Hence, in a nucleus complex these facilities will have to be created in a specified time frame so that the nucleus plants with their ancillaries can plan their scheduled work. Failure in provision of infrastructure will render industrial ventures costly and possibly uneconomical. It is therefore, necessary that emphasis should be laid on timely provision of such facilities.

5. Entrepreneurs and skilled manpower

Sufficient entrepreneurship may not be available in a backward area. So also may be the case with skilled manpower. Nucleus plant may be established in area by a public

sector undertaking or a private entrepreneur from outside the area. Similarly, the skilled manpower may also have to be obtained from outside. Initially there may be a possibility of encouraging some local entrepreneurs to establish ancillary industries. It is necessary that there should be local participation. Before the programme is launched, this factor may be taken into consideration and a plan be prepared to see that local entrepreneurs and skilled manpower to the extent possible is available gradually to take up the programme in a phased manner. It is not suggested that entrepreneurs or skilled manpower should not be encouraged to enter the area. This will be necessary for the activity to be taken up in the early stages.

6. Incentives

Backward areas with central subsidies have been provided with incentives for attracting industries. Experience however, shows that these are not enough to tempt large industries. It may be necessary that conscious decisions are taken to pay off "social cost" in the form of extra incentives, so that public and private sector units find it economical to go to backward areas and function economically.

In a backward area the cost of infrastructure is comparatively speaking likely to be heavy and since this expenditure is a must if industrialisation is to take place, the Government of India may consider sharing the burden jointly with the State Government possibly on a 50:50 basis. State governments alone may not have sufficient funds for this purpose.

Again as the scheme envisages link of the mother plant with as many ancillaries as possible, it will be appropriate to develop an incentive system by which nucleus plants can claim some concession/subsidy based on the number of ancillary units created and also on the total employment generated in the ancillaries.

The concept of nucleus complexes is undoubtedly a complex one. But given the appropriate support in terms of planning and implementation, it is bound to yield substantial results. The approach visualises that a district would be able to get out of the vicious circle of low income, low investment and consequently low level of employment. Nucleus complexes

are bound to result in a spiral activity and establish linkages between one set of activity and another. Yet the methodology of operationalising the concept needs to be spelt out. It is hoped that this National Seminar of Nucleus Complexes will be able to spell out various steps of implementation, the organisation support warranted to translate this concept into reality and in brief the modus operandi of this novel approach.

A Challenge

The development of nucleus complexes and the establishment of nucleus plants by themselves will not help in ameliorating the situation in the backward areas unless it is carefully planned and implemented. The demonstration effect of this programme will have far reaching effects. Its success will encourage the prospective entrepreneurs and will change the industrial climate of an area. The indirect employment that will be created by the development of other sectors will help a large number of persons. The economic benefits that will flow from the development of these complexes will have to percolate to the other areas and create a healthy chain effect on the economy.

Hence, this programme is a challenge which has to be met by careful planning and implementation. The essence of the programme lies in its timely implementation which in turn, could need a well-knit coordination approach. A detailed review and monitoring mechanism may have to be worked out to ensure that each item of work associated with nucleus plants is implemented within the anticipated time frame.

The nucleus complexes programme has been presented as a new approach towards the development of backward areas. It is an idea which combines the features of other programmes initiated earlier, and thus it has a comprehensive approach in its operation. Its success will open new possibilities in the industrial development of a country.

Entrepreneurial Development and Nucleus Complex - a Banker's View

V. Srinivasan*

The concept of Nucleus Plants

The Government's Industrial Policy Statement of the 23rd July 1980 mentioned that emphasis will be laid on an integrated industrial development, without the creation of artificial divisions between small and large industry. To promote this concept of economic federalism, it was envisaged that a few Nucleus Plants will be set up in industrially backward districts, to generate as many ancillaries and small and cottage industries as possible.

A Nucleus Plant, as per this concept, would concentrate on assembling the products of the ancillary units falling within its orbit, producing the inputs needed by a large number of smaller units and making adequate marketing arrangement.

Translated into effective action, the concept should be very beneficial for the healthy growth of industrialisation of backward area, for making available common facilities required by the ancillary units and for the growth of skills in the area. As each ancillary unit, in the course of time, may itself grow into a nucleus plant, the concept has a potentially impressive spread effect.

Need for entrepreneurial development

A Nucleus Plant will have the ability to stimulate the existing entrepreneurs to expand their activities and to attract new entrepreneurs to the area. An inherent objective of the concept is also that the Nucleus Plant will lead to the socio-economic betterment of the district itself. This will be greatly facilitated when the entrepreneurs belong to and live in the district. This would not, of course, mean that one could stipulate that the nucleus plant should necessarily depend only

* Paper by Shri V. Srinivasan, Chief Officer, Small Industries & Small Business Banking Dept., State Bank of India, Central Office, Bombay.

on the local enterprises (like an automobile factory established in a backward district being required to buy its components only from the ancillaries in the district/State). Such a stipulation, particularly in a backward district which may not have the capacity to produce goods of quality and economic price, may work against the viability of the major project and finally against the basic objective itself. However, there is a need to gradually build up the potential entrepreneurs in the area to grow into capable manufacturers to meet this challenge.

An "entrepreneur is the central figure in modern economic history"; the growth of entrepreneurship is an important ingredient of any economic development. No investment in a project or the provision of infrastructural facilities will have its desired results unless it coincides with entrepreneurial response. It is in this area that we have been having certain handicaps. In a traditional society like ours, with certain conditioned social attitudes and tendency to conform to well trodden paths rather than to branch out to new vistas, it is rather difficult to find adults who are prepared to take up risk-bearing activities. Consequently, when opportunities arise for the economic development of a community, very few in the same community awaken to boldly accept the opportunities and become the prime movers of or at least participants in development.

Possibilities of developing entrepreneurship

It is generally considered that a person learns, unconsciously and right in his childhood, the patterns of behaviour that are safest and most rewarding; this learning substantially influences his adult behaviour. The environment under which a person grows up in the Indian society generally conditions the child, as mentioned above, to a set pattern of thinking and growth. There is also a further feeling that the caste system in the country generally leads only a few communities to become leaders in industry or business, thus restricting the easy growth of entrepreneurship.

Nevertheless, detailed research in the country and elsewhere has established that potential entrepreneurship exists in all areas, in people of all castes and communities and further that it is possible to inculcate a sense of achievement motivation in adults also, through proper training.

In India, an increasing number of such achievement motivation training programmes have been held after the conduct of path-breaking experiments in this field by McClelland and his associates. The results of such programmes have shown that a class of motivated and trained entrepreneurs can be grown through careful and methodical training.

Entrepreneurial Development Programmes

As a part of its commitment to achieve economic development in backward areas, the State Bank commenced conducting Entrepreneurial Development Programmes in 1978, after a considerable study. The following paragraphs convey, briefly, the salient features of these programmes.

The process of entrepreneurial development has three basic phases:

- (a) Initiation
- (b) Development and
- (c) Support

The *Initiation Phase* includes the creation of awareness among people, of the opportunities available and culminates with the identification of persons with comparatively high entrepreneurial potential, through proper selection processes.

In the *Development Phase*, the selected persons undergo specified training aimed at motivation, development of economic insight to scan an environment to detect an opportunity and convert it into viable commercial proposition; promotion of management skills, creation of confidence through class-room sessions and direct experience etc. The aim is to develop the person's latent potentialities and to channelise them to the task of enterprise building

The *Support Phase* refers to the period after training when the motivated entrepreneur goes about establishing his unit. This is, by far, the most critical phase of the programme. In this phase, apart from support by way of infrastructural facilities like shed, power, finance etc., important support by way of continued counselling and encouragement to the entrepreneur in the formative stages of his enterprise are required.

This requires preserverance and special skills from the agency supporting the EDP, as demotivation can easily set in when the trainee finds that establishing a unit is not a simple affair and when he does not get a morale maintaining support.

Unless all the three phases are given adequate attention, the EDP will not yield the desired results.

This was very carefully studied by the Bank before designing its programmes. The process finally evolved, includes the following salient features:

(a) *Trainers*

A band of officials trained in behavioural sciences were given special training, using established consultants, in the conduct of EDPs (to assist selection of trainees, conduct of achievement motivation sessions etc.). A good team of such officials is a pre-requisite to the conduct of EDPs. The technical sessions in the programme are conducted by the officials in the Bank's Consultancy Cells. The course content was designed taking into account the basic general requirements of the candidates.

(b) *Identification and Selection*

The EDP is well advertised using the various media like newspapers, radio, etc. In addition, before the conduct of the programme, a seminar is held at the selected district, which attended by all branch managers and officials from various support/developmental agencies (like the SISI) to advise them of the proposed programme, the role to be played by them in it, etc. These persons also spread the news of the programme through direct contact. Structured application forms, to have initial analysis of the behavioural patterns of the candidate, are distributed and the answers analysed by the trained persons. The selected candidates are given sophisticated psychological tests followed by interviews to finally select about 25 candidates for the programme. The programme is not confined to the technically qualified people and graduates; matriculates are also allowed to participate. In the case of non-graduate, non-technical persons, experience in an industry is considered essential.

(c) Training

The programme comprises four weeks' residential training in which the first week is used for achievement motivation training. The subsequent weeks are utilised for training candidates, to acquaint themselves with various aspects in an industry, to understand the various analyses to be made before starting an industry, the preparation of a comprehensive project report, etc. Visits to selected industrial units, talks by experienced people are also included in the programme.

(d) Follow-up

After the training programme, continuous rapport is maintained with the trainees, through periodic meetings, over a period of not less than 18 to 24 months for giving them the necessary counselling and guidance in the establishment of their enterprise.

Close rapport is also created between the candidate and all the supporting agencies in the area (DIC/Electricity Board, etc.) so as to ensure timely infrastructural assistance. A liberal financial assistance is given under the Bank's schemes for candidates who decide on a viable project. Where the candidates are technically qualified or experienced, they are financed under the Bank's Entrepreneur Scheme which provides full financial assistance even if the person is unable to raise any margin. In other cases the margin is reduced to even 5%. The Bank has an Equity Fund Scheme wherein interest-free loans, upto Rs. 50,000 are sanctioned to meet the equity gap and which are repayable, after a moratorium of seven/eight years, over a like period. Interim financial assistance is also granted to trainees who require support when they are in the preliminary process of working on their project. The Bank's consultancy cell extends free counselling assistance to help the candidates till they finalise their project. At each LHO of the Bank, a special EDP cell functions to follow up on the various programmes conducted.

The basic objective of the EDP is to understand and empathise with the various traits in the candidate like his level of motivation, aspirations, fears, needs etc., and to give him the necessary counselling and training support so that the entrepreneurial traits in him are strengthened and he is able to,

on his own, understand the various risks and requirements in establishing and running an enterprise successfully. The objective is not merely to hand over a "finished project" to be implemented by him.

The Bank conducts these programmes mainly in backward districts for people who live in it, and who are generally prepared to establish their units in the same area. The entire cost of project is borne by the Bank, including boarding and lodging. While no stipend is paid to the trainees, persons belonging to SC/ST who require some assistance for out-of-pocket expenses are assisted.

So far about 40 programmes have been conducted and the Bank has found the experience to be rewarding. At least 30% of the trained persons set up a viable activity within one year of the conduct of the programmes. The programmes also have a potential multiplier effect when others in the district are motivated to start an enterprise after seeing the unit started earlier.

Nucleus Plant and EDPs

The conduct of an EDP in areas where Nucleus Plants (NP) are envisaged to be set up would be an idea which could lead to high benefits. Such programmes, generally, of the design mentioned above, may be modified so as to help even existing entrepreneurs (including technically qualified people) as when an entrepreneur expands or diversifies his product range, the training programme could help in equipping him to manage his unit better.

The EDP at such an area will have certain definite advantages for success:

- (a) The entrepreneur knows the product required by the NP. This would overcome the major problem encountered in EDPs where the entrepreneurs have handicaps in identifying a proper product to manufacture. In this case the NPs will be able to advise the type and quantity of products required to be manufactured.
- (b) Marketing would not be a major problem. The presence of the NP will remove the general fears and handicaps in marketing.

Proceedings of the National Seminar on Nucleus Complexes

- (c) The above advantages will give a tremendous boost to the morale of the entrepreneur, which would help in quick consolidation of the unit.
- (d) The technical inputs in the course can be suitably tailored or additional inputs given with particular reference to the product selected.
- (e) A good rapport will be created between the entrepreneurs, the NP and the bank which would be of advantage to all the parties concerned.
- (f) The officials connected with the NP may also interact closely with the EDP trainees so that the establishment of the units is done quickly and confidently.

Thus, while working on the establishment of NP in a given district, the conduct of an EDP may be taken up as one of the important basic pre-requisites.

State Bank would be happy to consider the designing and conducting of such programmes.

Criteria for Identification of Industries and Location within the Backward Districts for Establishing the Nucleus Complexes

K. C. Narayanan*

In the Industrial Policy Statement of July 1980, a proposal was mooted to promote the concept of economic federalism with the setting up of a few nucleus plants in each district identified as industrially backward to generate as many ancillaries and small and cottage units as possible. The reason for this apparent shift in policy was the feeling which was gaining ground that some sort of artificial barriers were being created between small and large scale industries which resulted in slow industrial growth.

Several advantages were expected to be derived by the establishment of nucleus plants. These were:

1. A nucleus plant would concentrate on assembling the products of ancillary units falling within its orbit or producing the inputs needed by a large number of smaller units and making adequate marketing arrangements;
2. It would ensure a widely spread pattern of investment and employment and will distribute the benefits of industrialisation to the maximum possible; and
3. It would also work for upgrading the technology of small units.

Two types of nucleus plants are possible:

1. In the first category, a number of small units could be developed in a backward area and a nucleus plant set up to provide common facilities, design and documentation, testing facilities and marketing support. This would ensure the technological competence, manufacturing excellence and effective

*Shri K. C. Narayanan Director of the Small Industries Service Institute, Hyderabad.

marketability of the products of small industries clustering around the nucleus plant. The nucleus plant can market the products of the constituent units under its own brand name wherever feasible.

2. The second type of nucleus plants contemplated is basically an assembly unit in which production of items that cannot be procured from ancillary units is also carried out. The other assemblies and sub-assemblies will be off-loaded to a large number of ancillaries who would be producing them to the designs and specifications of the nucleus units. It is also possible that in future the small unit to which a sub-assembly is off-loaded might itself grow into a nucleus unit generating its own cluster of ancillary suppliers around it. The benefits of this movement would percolate to the villages through establishment of further units.

The above explanation of nucleus plants has been given in detail because when once the concept is understood in the correct perspective it would be easy to lay down criteria for identification of industries and selection of proper locations. Since the objective is the speedy development of backward areas through integrated industrial development, the nucleus plants would be naturally located in backward districts.

Let us first consider the criteria for identification of the industries. Having regard to the two types of nucleus plants explained earlier, the following criteria appear to be relevant for the identification of industries.

1. The industry should have the potential to promote ancillary industries
2. It should be labour intensive
3. It should, as far as possible, be one which utilises the locally available raw materials and skills
4. Its products should be easily marketable
5. It should not depend on high technology as far as possible.
6. It should not cause major social changes of an undesirable nature

7. It should be one which causes the least pollution in the area
8. It should not cause a major strain on the infrastructural facilities in the area such as power, water, transport etc.
9. It should be one which offers the maximum spread-effect.

These criteria are in conformity with the concept of nucleus plants and as such they do not need further explanation.

Now about the criteria for selection of location of the Nucleus Plants. Three types of locations can be visualised. These are:

1. An area (industrially backward) which is close to an industrially developed town or city;
2. A backward area which is quite remote from an industrially developed centre; and
3. A backward area which lies in between two industrially developed areas.

Needless to say, the criteria for selecting the particular area for locating the nucleus plant would depend, not only on the type of industry selected, but also on the degree in priorities we attach to the various advantages of establishing a nucleus plant and the special characteristics of the three types of locations cited above. A thorough consideration of all these aspects is essential if we want to derive the maximum advantages expected from the location of the nucleus plant.

Location in a backward area close to an industrially developed town or city

If the nucleus plant is located in such an area the main advantage would be the availability of infrastructure facilities that are already developed in the city. In such a situation, the nucleus plant would come within the zone of influence of the city and will be in an advantageous position with regard to the availability of skilled labour, raw-materials, transport

facilities, market etc. It would be easier to find entrepreneurs also since investors naturally prefer an area where the essential inputs are available to one where the infrastructure itself has to be built up from scratch.

However, proximity to a developed area has its disadvantages too. A nucleus plant located in such an area would not be able to meet the objective of taking industrialisation beyond the metropolis and thereby achieving the goal of distributing the benefits of industrialisation over a wider area, mostly rural and backward. The magnetic influence of a city is too well-known. Workers and management personnel would continue to stay in the city and commute to their factories everyday. The result would be further deterioration of transport services, housing facilities, educational facilities, etc., in the city. The money earned from the factories will be spent mostly in the city. Thus, instead of developing a backward area, the nucleus plant would be actually developing an already developed area at the cost of the backward area. One of the main objectives of establishing nucleus plants will thus be defeated.

If any example is needed, we have one right under our nose at Pattancheru. Pattancheru which is only 20 KMs away from the city of Hyderabad has no doubt been transformed into an industrial area of no small magnitude. But the workers and management personnel of these factories, by and large, stay only in Hyderabad and spend their money in Hyderabad. Pattancheru area does not derive the full benefits of industrialization.

Location in a backward area, quite remote from an industrially developed centre

Such centres will be generally backward areas in the real sense since they will be free from the influence of developed centres. However, they should have the potentialities for development. These may be areas having one or more vital resources for development but not all types of resources, for example, an area which has abundant mineral resources, skilled labour and power, but lacking transport facilities, can become a possible location for a nucleus plant. In this case, transport

facilities could be provided by augmenting the rail and road transport facilities in the area. Other facilities such as housing, entertainment, health services, schools, shopping complex should also be made available so that the personnel employed in the factories need not have to go out of the area for these facilities. If this is done, the area will automatically become developed in course of time.

It must once more be emphasised that the area, even though backward, should have some resources, if not all, so that it has potentialities for development. To select an area which has no resources at all and trying to develop it by providing the necessary infrastructure at enormous cost and bringing all the resources from outside for running industries will be an exercise in futility which we can ill-afford.

Location in a backward area which lies in between two industrially developed areas

Such an area will provide ideal location for nucleus plants. Needless to say, the location should be outside the zone of influence of both the developed areas, but at the same time not too far from them. In such a case, the area attracts workers and investors of a more adventurous kind who tend to settle down near their factories and strive to develop the area. Because of the distance and probably congestion in the earlier developed area, they are motivated to concentrate their efforts in the new area which soon starts developing. If good transport (rail or road) facilities also exist, that is, if the location selected is on the main railway line or trunk road, the development of the area will be very fast. The so-called ribbon development then takes place and very soon the entire tract along the railway line or trunk road gets transformed into an industrially developed area (Eg. Bombay-Poona industrial belt).

Even though the criteria for identification of industries and location for the nucleus complexes have been discussed in the earlier paragraphs, it must be stated that these criteria should be used with a certain amount of flexibility in specific cases. Each industry has its own characteristics. Similarly, each area has its own advantages and disadvantages. Therefore, a pragmatic approach to the problem with an open mind rather than strict adherence to academic theories will be preferable.

Nucleus Plants and Backward Area Development

Dr. B. Sudhakar Rao*

Dr. Charanjit Chanana, Hon'ble Minister for Industry has laid emphasis on the establishment of Nucleus Plants in backward areas in the Industrial Policy Statement tabled in the Lok Sabha on 23rd July 1980. Subsequently, letters were addressed to all Chief Ministers and Governors to initially identify two backward districts in each State and an indication of number of small units to be set up either as ancillary suppliers to large Nucleus Plants or by themselves. Elaborating the concept of Nucleus Plants, the Hon'ble Minister has stated in a recent conference of Industry Ministers of States held in New Delhi on 7th February 1981 that it is a strategy of industrial development which synthesised the objectives of industrial dispersal and inter-sectoral integration.

A policy paper on backward areas intended for private circulation by the Office of the Development Commissioner, Small Scale Industries, states that a Nucleus Plant would concentrate on assembling the products of ancillary units falling within the orbit of producing the inputs needed by the large number of small units and making adequate marketing arrangements. With this objective, it is proposed to establish a chain of Nucleus Plants in the industrially backward districts which will have necessary forward and backward linkages with various small industries in the area. In the selection of product lines, maximum attention has to be given to the utilisation of local skills and materials as also to the market which the products are to be addressed to.

The State of Punjab was the first to respond and based on the Task Force set up by the Ministry of Industry, a number of Nucleus Plants were identified. Govindwal Sahib in Punjab, Solan/Sirmur and Kangra in Himachal Pradesh, Puri in Orissa and Medak in Andhra Pradesh are some of the centres already identified for these plants. A number of

* Dr. B. Sudhakar Rao is an Associate Faculty Member at the SIET Institute, Hyderabad.

complexes were already identified for Medak District, the Hon'ble Prime Minister's Constituency and Dr. Ram K. Vepa, Development Commissioner, Small Scale Industries has recently toured the district with a team of officials and showed keen interest in the development of fruit based complexes in the district. Thus, the operational aspects of the programme of Nucleus Complexes has gained much momentum.

However, the conceptual, methodological and operational discussion on the academic front on this strategic policy for the development of backward areas has yet to begin. This lacuna is sought to be filled through a seminar scheduled for the month of June at Hyderabad which the Hon'ble Minister for Industry, Dr. Charanjit Chanana is expected to inaugurate.

The process of backward area development inspite of our tremendous progress in the industrial front, specially the small scale sector which includes the modern small industry, the tiny sector, ancillaries etc., decentralised sector with Khadi & Village Industries in it, is still to go a long way. It is well recognised now that there is no short-cut to growth, no single solution and no single theory of regional development that commands universal assent. Implicitly, industrial growth is contingent upon comparative locational advantage, resource endowment, regional exports and the mutual reinforcement of linkages and multiplier effects. The economic base, the growth pole, the central place, the role of the city, the concentrate zone theory, the Wedge theory, the multiple nuclei, the sector theory, the geographical incidence and transmission of development and the industrial complex approach are all important approaches to regional industrial development strategy.

The industrial complex approach is really a dominant approach and fits well with the backward area development. A complex is an ensemble of technologically inter-related, industrial units usually located in the region. They belong to a group which are subjected to important production, marketing or other inter-relations. Generally, it is a planned one with common physical infrastructure and is developed around one major industry which forms the core of the complex.

Proceedings of the National Seminar on Nucleus Complexes

The possibility of co-ordinated exploitation of industrial resources in a region, the efficient production possibility due to specialisation, the generation of substantial economies of investment expenditure and organisation of common managerial and infrastructural facilities would make the complex contribute substantially to the backward area in terms of output, employment and income and in terms of utilisation of local skills and resources and involvement of locals in their own development. Thus, the very selection of a group of inter-connected activities becomes crucial for the backward areas and simply a matter of judgement based on appreciation of technological and economic inter-relationships. This discussion would help us to realise what is desirable and against this background, appreciate what is possible.

The development of backward areas require a multipronged attack on regional problems. On the industrial front, it is necessary to identify one or two dominant resources on which the industrial base has to be built up. That is to say, nucleus resources are to be utilised for the development of Nucleus Complexes. For example barytes in Alwar District of Rajasthan is a nucleus resource on which barium chemical units can be located as a complex. This is a resource concentrated zone and if once a number of units based on this resource can be established, the local demand thus generated would naturally pave the way for regional stability.

Likewise, sugarcane is a nucleus resource. For example in Chittoor District of Andhra Pradesh, the establishment of Sugar Factory has resulted in a distillery unit using Molasses, sugar cane crushers' units, a confectionary unit, cattle-feed unit etc. Thus,* forming activity in themselves provided the Policy makers motivate the individual decision makers to invest, through inducements. These are inter-related activities with inter-unit and sectoral linkages between agriculture and industry. By being close to each other these units will have economies on transportation costs. Such type of units would show an expansionary path for the growth of related activities and the linkages would have the real impact on the growth of the region, through spread effects. This is one of the many aspects of industrial complex approach.

* these resources, agro and mineral, have a complex

Another approach may be in terms of importing a major resource or a product from other regions that can become a major input to many inter-related activities. If a good number of units basing on this resource or product are established ultimately these would result in the production of that resource or product in that region itself. For example, a particular stone called the black glass used to be imported from far away States for the manufacture of glass beads at Papanayudupet in Chittoor District of Andhra Pradesh. A good number of glass beads units provide employment to more than 75 per cent of the entire village folk.

About 50 to 55 per cent of the total cost of production is on account of the raw material. As the village industry could no longer depend on supplies of raw materials from the distant places, two black glass units have gone into production in 1978 and one more is coming up. These units are now in a position to meet 55% of the total demand. The product is of export value. Likewise, granite is being brought to Kuppam in Andhra Pradesh from neighbouring Karnataka and Tamil Nadu states and granite slab making and polishing units are a flourishing industry in an otherwise barren and undeveloped land, by any standards. A number of units have come up based on one raw material alone imported from other states and the entire output is exported to other countries. Thus, these types of complex-forming resource based units are very important and strategic to the growth of backward areas.

Another one is based on a giant unit, based on which, a number of units can be planned as ancillaries. These are generally oriented to big cities and important centres rather than to backward areas. For example, the Kushaiguda Electronic Complex is a planned one, on the outskirts of Hyderabad city around the giant public sector ECIL project. About 36 units are now engaged in the production of electronic components out of 66 units functioning. A good number of units accommodated in the complex do not pertain to the electronic industry. In such a complex no other unit other than the electronics ought to have been promoted.

If this sort of a policy is not implemented rigorously, as a matter of policy, the electronic units which could have come up there and are now located outside the complex would face great problem regarding the testing facilities offered by

the (Electronic Testing and Development Centre) ETDC which was established in 1972 for testing of circuits and finished products. The way the Electronic Complex is developed, it would be worth developing such similar complexes in the backward areas with testing facilities in view of the increase in demand of electronic equipment and allied items in the country.

The Industrial Complex can thus be developed around one major industry or a major input. To arrive at this basic input, a step by step comparative cost analysis would be useful to minimise the transportation cost, if any, in a given region. Thus, it is important, in the preparation for a nucleus complex, initially to analyse the dominant resource in the region, their present status in terms of movement outside the region and internal consumption, identification of major important activities which have a bearing on the regional/national economy, evaluating the importance of important complexes based on the employment criterion and the intermediate inputs which might be required and possibilities of their production within the complex itself.

Since the already available local resources in the backward area are being put to use in some way or the other and are traded with several prosperous regions to the benefit of the farmer, it is important to tap the new resources that are gradually taking roots in the backward areas. For example, in a very backward region of Andhra Pradesh, viz. Prakasam district, cashew is becoming an important resource apart from tobacco and cotton. Cashew is used for jam making, from fruit juice, for making alcoholic beverages, cashew apple syrup etc. A well organised Agro Industrial Complex or an integrated processing plant for processing a wide range of products would naturally go a long way in extending the resource base.

Also, there is a booming world market for bran made from fruit canning waste. Cashew apple bran is as palatable and has protein and fat content almost as high as pineapple bran without much fibre and it can be used for dairy cows and buffaloes. Likewise, the cereals that are grown in the backward areas and waste products can be utilised for a most modern furfural complex-furfural alcohol (FA), Tetrahydro Furfural Alcohol (THFA), furan, Tetrahydro furan,

ether, glycol and other by-products etc. These are the types of complexes that add to the charm of the backward areas and the stress should be more on the linkages to agriculture and its waste.

Since the National Government is so much committed to the development of backward areas, it would be desirable to establish defence based units as complexes in these notified backward areas which are in close proximity to cities are more advantageous in terms of gaining external economies. Medak, the Hon'ble Prime Minister's Constituency being in close proximity to Hyderabad, which has several national research institutes, Universities and well developed communication system is one example of such a location.

Apart from Nucleus Complex, Artisan Complex also is very important in terms of backward area development specially when the developed approach is oriented to employment generation and removal of poverty. The same backward regions have certain specialised skills, which are almost monopoly skills imbibed from generations. These skill-based products are of high export value and well fit into the export lead growth theory as applied to backward regions. The Author wishes to quote one such classic example of artisans carrying "Shivalinga type stones" out of the nearby hillock-rock in Kuppam (Andhra Pradesh) which are used as mile-stones in European countries. These stones are shipped to several European countries through Madras Port which is about 300 kms. away.

The skilled workers get a wage of Rs. 25 per day which is equal to the wages received by a fresh graduate engineer. This type of exports bring more returns to the artisans and the units and help speedy growth of the region. Policy makers, thus, have to take notice of these types of skills and products which have high export value for the development of backward areas. These are to be brought in the form of complexes to generate more economies and the required machinery be created for more exports from backward regions. Export-led growth is the best for backward area development. However, this development requires very intensive care of the artisans by way of financial assistance for working capital, storage facilities, work-sheds and realisation of market proceeds at the earliest.

In a recent survey of 62 artisan units in five clusters of specialised activities in a backward region, it was found that only 22 units have availed of the loan facility to the tune of Rs. 23,000 which on its face-value is quite inadequate. Even for Cooperative Societies, specially for basket weaving, financial assistance is lacking for construction of small godowns. Since these artisan activities, which are almost 'complexes' in a rural economy, do contribute substantially in terms of employment and output of high value and therefore, it is very important to arrive at proper policies and programmes for backward area development.

These activities including the village industries are also economically viable and contribute to the consumption of the backward area. In one of the backward districts the analysis of village industrial activities yielded input-output ratios of 1.78 for blacksmithy, 1.18 for village oil, 1.91 for matches, 5.67 for jaggery, 2.77 for bee keeping, 1.72 for basket making, 1.64 for carpentry, 2.92 for lime, 2.60 for fibre and 2.18 for brass metal products, making an average of 2.43 for all in a sample of 65 units.

Reverting back to the Nucleus Plant concept, it is to be mentioned that mere ancillary development is not all backward area development. The location and content of Nucleus Complex should realise the future pattern initially. This is because of the growth or decline of the ancillary unit depends on the mother unit. When the mother unit suddenly faces strong competition, the ancillaries have to face problems. This has happened with respect to the Mopeds Industry at Tirupati which had encouraged 8 ancillary units. Due to fluctuations in the market and competition from other manufacturers, the units' capacity utilisation has gone down from 58.65% to 40.33% in one year and consequently the orders to ancillaries have fluctuated. During the same one year, the Mopeds production has gone down from 17619 to 12208 in absolute numbers. Hence, the nucleus plant strategy has to estimate initially the future market pattern so that the small units surrounding it will not face problems in the future.

This type of cyclical fluctuations cannot be avoided in a backward region. However, maximum capacity utilisation both in the mother unit and ancillary units should be a pre-condition for developing a complex. It is the experience of

one backward district in Andhra Pradesh, as the survey of 105 units reveals that as many as 41 units utilised capacity below 50%, 20 units utilised capacity between 51-74%, 70 units used capacity between 75-99%, and only 20 units (5%) showed full capacity utilisation. This capacity under-utilisation will naturally result in low levels of employment, not commensurate with their capital intensity. Only export oriented units and need based activities have shown full capacity utilisation and this fact may be taken notice of in planning Nucleus Complexes in backward areas.

Training programmes for unemployed engineers for setting up of industries with the support of Government of India were launched recently. One such programme has just now concluded in SIET Institute. Some of the Nucleus Complexes identified for backward districts may be exclusively reserved for unemployed engineers and technicians drawn from the concerned regions. Given a full orientation to the managerial, economic and technical aspects of the proposed products and complex and given the necessary financial, marketing and administrative support, these trained entrepreneurs would be able to contribute much to those backward regions where they live and to which they belong. The success story of engineer entrepreneurs in the Technocrat Industrial Estate in Balanagar is one such example.

Selection and running of a Nucleus Industrial Complex is not an end in itself in the process of backward area development. Its impact on the local economy should percolate into different sub-regions. Otherwise, as is the past experience, the growth results would be restricted to a particular place around which darkness still dominates. These complexes should generate more indirect employment in the related fields of activity for unskilled and rural workers. It should have a demonstration effect for the prospective entrepreneurs in the sub-regions of the backward district. Hence, a separate cell for nucleus complex in backward areas in the Ministry of Industry should take up the work of evaluation and monitoring of these complexes so that administrative delays and prospective sickness could be avoided. Some monitoring exercise has already been undertaken with respect to the industrial licenses and implementation of letters of intent. Para 33 of the Statement of Industrial Policy refers to a comprehensive system of monitoring the implementation of the schemes.

Backward area development requires multiple policy prescriptions. Export oriented and need based activities should be the criterion for developing nucleus complexes. As far as possible, these are to be strictly linked to the dominant resource inputs of the area, agricultural, mineral and other complex forming activities. The trading centres and resource concentrated zones are the best locations for identifying and developing particular activity complexes. If employment generation for minimum living standards is the major criterion, a dominant resource can be brought from other regions and units developed around it. The cottage match making industry is a classic example. 'A productive family's schemes' as adopted in Egypt for the development of artisan and handicrafts activities might be suitable for backward areas for providing more effective employment opportunities. Inter-sectoral linkages might be more effective in generating more indirect employment benefits rather than inter-unit linkages in the backward areas and nucleus complexes are to be geared towards more inter-sectoral and inter-regional linkages for achieving faster growth targets.

Viability of Nucleus Plant- an Entrepreneur's View Point

*** R. K. Mehta**

The accelerated industrial development, to meet the expanding needs of the country is, rightly receiving the top priority from the government and all sections of the society. It is also recognised and accepted that the future process of industrialisation should also ensure widespread ownership and development of backward areas. The promotional programme for industrialisation should be able to attract experienced managers and technocrats as this will increase the chances of success substantially.

With a view to meet the above need, and other objectives, Government of India in its Industrial Policy Statement of 1980, has spelt out a new concept of nucleus and orbital plants (NOP). Two types of NOP can be conceived:

- a) nucleus plant buys components and semi-finished products from orbital plants to produce finished goods; and
- b) nucleus plant supplies the raw material and semi-finished goods to the orbital units.

The primary analysis of the above concept, brings out the following possible strengths, which can lead to economic success of NOP:

- 1 the total capital cost of NOP complex can be minimised by avoiding duplication of utilities and maintenance services;
- 2 the total cost on services, such as warehouses, administrative services can also be reduced by avoiding duplication;

* Shr R. K. Mehta is currently working on setting up a Nucleus plant in Sangareddy, Medak District, Andhra Pradesh.

Proceedings of the National Seminar on Nucleus Complexes

- 3 the group will have resources to keep abreast with technological development, unlike an individual small scale industry;
- 4 entrepreneurial spirit can flourish and high operating efficiencies can be maintained, as orbital plants will be of a relatively small size;
- 5 techno-manager who have limited resources will be able to take up orbital units;
- 6 the group can afford expert marketing support services and also services in areas like financial management etc.

For the success of the nucleus plant it is necessary-

- i) to have policies to reinforce the strengths mentioned above; and
- ii) to have supporting policy in the areas of financing, taxation, excise duty, etc.

It is possible to elaborate on all the six factors mentioned above but in this paper the factors 1 and 2 are discussed in details, with reference to a typical chemical processes industries.

Minimum Capital Cost by Sharing Common Utilities

One of the important factors influencing the survival in initial stages is the debt-services costs. The debts can be minimised, by installing only the plant and machinery which are the prime production units, and then expanding them as the production picks up. This may not be possible in some cases, but should be given a thorough scrutiny. A typical example is a drier, where it is possible to start with a shorter length of the oven, and add on the additional modules as the production picks up.

The common utilities required for the process industry are:

- a. receiving and distribution of power;
- b. receiving, storage, softening and cooling of process water;

- c. generating and distributing steam;
- d. compressing air and distributing the same;
- e. incineration/effluent disposal; and
- f. maintenance workshops.

Under the present project concept, each unit i.e. the nucleus and orbital plants are supposed to have the facilities of their own, otherwise the project is not approved by financial institutions. Generally, each unit will need to spend 30% of the capital cost, for the above utilities, which in no case will be fully utilised in the first three to four years. They also cannot afford to have stand-by units, which are essential for a process industry.

The alternative to the above is that one of the orbital units should be set up to own and provide common utilities and maintenance services. This will reduce the capital outlay for the complex and improve the viability of each unit.

A typical example worked out had shown that by adopting the above approach, about Rs.50 lakhs investment could be reduced in a total cost of Rs.200 lakhs, for plant and machinery for NOP complex.

Minimising Capital Cost by Sharing Common Facilities/ Services

Other areas where substantial investments are made include the testing labs, warehouses and administrative services. Normally 10% to 15% of investment of total project is made in this area. The utilisation of these facilities in the first five years is very low. It should be possible to have common testing facilities for R & Ms and finished products. It should also be possible to have common warehouse, weigh-bridge and facilities like bonded stores, etc.

At present financial institutions do not assist an independent unit to provide only warehousing and testing services. It is recommended that such units be financed. This could also cover other services like canteen, transport and communication etc.

Supporting Policies

Financing: The financial institutions should accept project proposal, where the NOPs depend for utilities from separate orbital units.

The margin money and other financing supports to be given to independent units offering support services may need to be revised.

Major breakdowns and consequent repair costs should be considered as capital investment and not as part of working budget expenses. There are many examples when small industry has become sick because of the present policies and practices.

Sales Tax: The sales tax policies should be such that, there is no sales tax charged when goods are transferred from N to O units or vice versa.

If the basic raw material is purchased within the state for processing goods then there should be no sales tax.

Excise Duties

The excise rules would need to be modified so that no duty is charged when transferring semifinished/finished products among the orbital units and the nucleus project.

Conclusion

Given a fair chance and an encouraging attitude from government and the development agencies, the nucleus projects will succeed and fulfill the socio-economic expectations of the government.

Entrepreneurial Development vis-a-vis Nucleus Industrial Complex in Medak District

K. Venkateswara Rao*

Economic growth depends on a complex of interrelated factors. In attempting to understand this phenomenon, the tendency has been to focus on a single key factor – not the only, but the most important determinant of growth. Various authors at various times have emphasised technical knowledge, ideological ardour, natural resources, governmental organisation, motives and attitudes, capital and so on. The emphasis, now, is on entrepreneurs and entrepreneurship.

It is apt to mention here that the government has rightly emphasised the importance of fostering entrepreneurship in the context of the setting up of Nucleus Industrial Complexes. Before discussing the specific aspects of entrepreneurial development in Medak district, it is pertinent to briefly dwell on the various views on entrepreneurship and its essential characteristics that have emerged over the years. This would also, it is hoped, help in framing and pursuing the right policies for nurturing enterprise in the district.

Views on Entrepreneurship

Studies in entrepreneurship have revealed the following:

i) The industrial entrepreneur is a distinct personality type. At the block he must believe that change is possible and can be brought about by individuals and he must be motivated to act to bring it about.

ii) Within any society only a limited number of individuals have entrepreneurial attributes in sufficient degree to be actual or potential entrepreneurs.

* Shri K. Venkateshwar Rao is Development Manager (SIB), SBI, Hyderabad.

iii) These individuals do not act entirely or even primarily from pecuniary motives. For instance, they may try to achieve recognition in the economic sphere because other avenues are not open to them.

iv) A significant number of them will turn from potential to actual entrepreneurship only if the non-economic obstacles they face are not too severe. Among such obstacles are lack of security for person and property.

v) Entrepreneurs must be able to obtain command over resources by obtaining credit or by other means.

vi) Potential entrepreneurs are not randomly distributed in societies as suggested by Joseph Schumpeter. Instead entrepreneurial characteristics develop in a significant number of people only from a change in the motives of a society or of a substantial group in it.

vii) The development of entrepreneurship depends primarily on the strength of a clearly defined psychological variable - the Need for Achievement (Prof David McClelland in the "Achieving Society" has accumulated impressive documentation in support of this thesis).

viii) Rangnar Nurkse and JJ Spengler suggest that enterprise and initiative have come largely from the middle class which is virtually non-existent in underdeveloped countries.

ix) In the "Strategy for Economic Development", AC Hirschman concludes that the scarce factor in development is the ability to take decisions. In underdeveloped countries change is considered possible either only at the expense of others or only if a whole group changes. In either situation, individual ability to make entrepreneurial decisions is severely limited.

There is an imperative need, therefore, for designing development policies and programmes to facilitate induced or routinized decisions.

Entrepreneurial development gains increasing prominence especially with the Nucleus Industrial Complex coming up at Medak. Some important questions/aspects that

need attention are :

- a) What is the potential for developing an entrepreneurial base in Medak district ?
- b) What is the experience of commercial banks and other developmental agencies that are engaged in conducting entrepreneurial development programmes?
- c) In the light of the experience gained by the agencies, does a need arise for re-structuring the entrepreneurial development programmes, keeping in view the objectives, the priorities and the plans of the Nucleus Industrial Complexes?

Analysis of these aspects becomes meaningful after an examination of the present industrial scene of Medak district and the development programmes organised by commercial banks/development agencies.

In Medak district (at Patancheru) there are 27 large and medium scale units in the public and private sectors with an investment of about Rs. 88.63 crores and employing around 15,000 persons. The district, also, has 546 SSI units with an investment of Rs. 9.60 crores, accounting for a mere 2% of the number of units of the State. Of the 27 large/medium industries, 3 public sector units together account for an investment of Rs. 54.15 crores and employ just over 10,000 persons. These 3 units, thus, account for 61% of the investment and 72% of the employment. It is clear, therefore, that the district has not been able to attract private entrepreneurs/investment inspite of the package of incentives and infrastructural facilities offered.

Realising the imperatives of entrepreneurial development, the State Bank of India and several developmental bodies like SIET Institute, APITCO and SISI have been conducting motivational/training programmes to identify, train and develop entrepreneurs. In these programmes, differing emphasis has been laid with regard to a) the target segment, b) the subject mix and c) the duration. These features are summarised in the annexure.

Based on the experience of the programmes conducted by the several agencies, it is felt that homogenisation of the target groups and specific inputs based on the requirements of segments would go a long way in producing better results. Also "nucleisation" pursued to its logical end should involve almost the entire community and not merely a section, in the industrial/economic activity. Almost every family (barring those engaged in agriculture, allied activities or other services) should be involved in some way or the other (production of some inputs or services) in the industrialisation process. This would necessitate conducting programmes to motivate people to set up small business and support services too. Categorisation of entrepreneurs (target groups) for the development programmes could be made on the following basis:

Classification of Entrepreneurs

- a) From rural areas: no formal education, capable of managing units with investments ranging from Rs. 5000/- to Rs. 25,000/-.
- b) From rural/urban areas: matriculates, or persons with skills gained over years; capable of running units with investments in the range of Rs. 25,000 to Rs. 1 lakh.
- c) Agrarian background: higher order of personal investment capability; a little or no industrial background.
- d) Students from engineering colleges/polytechnics/other professional courses and about to complete courses: (to be motivated in industrial self-employment rather than job seeking).
- e) From educated unemployed category: mostly graduates (technical/non-technical) and above who may or not have the necessary investment resources, but can be motivated to start industry as a matter of circumstantial necessity.
- f) Engineering graduates / diploma holders, already employed, but who want to set up small industries.
- g) Persons with high motivational order: those who wish dabble with sick units and convert them to healthy ones.

Each of the agencies, now engaged in the conduct of these programmes may plan to cater exclusively to one or more of the target groups aforementioned. This would certainly lead to optimum utilisation of efforts at the entrepreneurs level, the trainers' level and the policy makers' level. Some observations and difficulties experienced at present during the training development programmes are stated below which could be looked into while designing future programmes:

- i) It is difficult for entrepreneurs, during the training phase to visualise the full application of their ideas. Consequently product decisions are hastily taken, often at the instance of promotional intention, without considering the viability of the project.
- ii) It is better to decide well in advance the stake of borrowers, to avoid delays, misconceptions later.
- iii) Entrepreneurial qualities are developed over a period of time and through constant and personal interaction. The implication, for policy makers, is to provide for a congenial atmosphere (Liaison, counselling, extension) and back-up service after the programme is over.

Impact of Nucleus Industrial Complex

The Nucleus Industrial Complex is bound to create a tremendous impact in the district and cause strains in the tertiary sector. Great care and thought will have to be bestowed on transportation, housing, electrification, water supply, etc. Demand for shops, markets, businesses, petty traders, banking services, entertainment, sports, health, etc., is bound to go up.

Medak being a predominantly backward district and considering that enterprise and initiative cannot be built overnight, it may not be possible to build up the required level of entrepreneurship from among the residents of the district within the stipulated time span (of 5 years). Therefore, the answer lies outside Medak district and more specifically in Hyderabad. Hyderabad, with its growing graduate (technical/non-technical) population and with the availability of skilled/employed workforce offers a good potential for entrepreneurs.

Proceedings of the National Seminar on Nucleus Complexes

This potential can be fully utilised for the benefit of the district. To wean the potential entrepreneurs away from Hyderabad and encourage them to set up industries in Medak district, the following measures could be considered;

- i) Increasing/improving the existing financial incentives;
- ii) Extending the coverage of the central subsidy schemes to the entire district;
- iii) Exemption from duties and taxes (excise, sales tax, etc.);
- iv) Reducing the number of agencies involved in the industrialisation process and simplifying the procedures; and
- v) Setting up of a single high power body with which the entrepreneur may deal and which can coordinate the work of all other agencies involved.

As indicated in the report of the Task Force, the locations identified for establishment of nucleus complexes and the approximate outlays are :

	Rs. in lakhs
Sadasivpet	7,500
Siddipet	2,670
Zaheerabad	530
Sangareddy	6,600
Medak	8,337

	25,637

Estimated number of ancillaries is 170. On the total investment in nucleus complexes of Rs. 25,637 lakhs, short term requirements would roughly work out to Rs. 7,690 lakhs (30% of total project cost). Tertiary sector investment is expected to be around 25% of industrial investment, say around Rs. 6,409 lakhs.

The share of banks in this district consequent upon lodging of Nucleus Complexes should be decided well in advance, taking the DCC forum.

Given the entrepreneurial attributes of the targeted segment, the success of any specific policy/programme depends to a very large extent on the zeal displayed by the bureaucracy created for the purpose. The machinery of the governmental departments, the development agencies and the commercial banks must be geared, and not merely on paper, to nurture and to sustain the entrepreneurial abilities. One of the yardsticks which the government may adopt for evaluating the efficacy of various policy instruments in the economic sphere, is the extent to which these would actuate the entrepreneurial impulses of the people.

Contd.

Proceedings of the National Seminar on Nucleus Complexes

Annexure-1

Entrepreneurial Development Programmes conducted by various Agencies

Normal duration of programmes	Target group	Course Design/ subject-mix	Objectives of the programme	Comments/Remarks
1	2	3	4	5
15 days (in 3 phases) inter-phase gap of about 4 weeks		Phase 1 : Orientation Phase 2 : Inputs regarding management of industry; appraising project reports undertaken by entrepreneurs. Phase 3 : In-plant training (if possible)	Develop entrepreneurial culture by training prospective entrepreneurs	Achievement motivation/behavioural inputs lacking; Programme preceded by survey of industries that can come up; Project ideas discussed with district officials before suggesting to entrepreneurs. DIC selects trainees; SISI conducts programmes.
30 days	Educated unemployed; Women entrepreneurs; Student entrepreneurs; Rural artisans	Seminars; open-house discussions; motivational campaigns. Different programmes oriented towards specific products/processes.		

	1	2	3	4	5
6 weeks		Professionally qualified and occasionally experienced entrepreneurs	Some motivational inputs; identification, formulation, appraisal of projects; preparation of detailed feasibility report.	Imparting managerial skills to target group	Not useful for freshers from college and for those without investment capabilities.
30 days		Heterogeneous group (minimum eligibility; high school)	Achievement motivation/ Behavioural inputs during first week. Remaining three weeks; class-room sessions/industry visits/practical training in small units/simulated exercises. Subject-mix: Basic management of industry, preparation of feasibility studies, etc.	Initiate, develop and support entrepreneurship in backward districts (where SBI is the lead Bank)	Personal counselling of industrial entrepreneurs during the last phase (week) of the programme. Continuous counselling and services consultancy (free of charge) in areas like market surveys, project identification, feasibility reports after the programme. Frequent review meetings (once in a month) to monitor progress of entrepreneurs. Liaison with various other development agencies.

Some Basic Issues Relating to the Nucleus Complexes Strategy

NRK Swami *

There are two important and significant aspects of the nucleus-complexes strategy which are to be considered; firstly, that it is a strategy to be adopted in the context of backward area development and secondly it is a concerted and concentrated investment programme. However, it is to be borne in mind that nucleus complexes strategy is partly an ancillarisation programme, too. Further, it must be recognised that the envisaged industrialisation programme does take into account the overall demand aspects at the national level while identifying the industries, and not restricted to the regional demand alone. Thus, this approach has certain inherent features which make it unorthodox in the Indian context and experience so far. This is, what is purported to be conveyed in the concept of economic federalism, namely, that large, medium and small industry should co-exist and grow together but not at each other's cost. In fact, this type of policy is needed to promote what is called as "industrialism".

This strategy also envisages quite a heavy investment, though spread over a period, both in terms of the plant and the complex. However, certain issues must be resolved here and now, so that the programme will not flounder at a later stage. The limited experience in planning of nucleus complexes so far indicates that the industries suggested are highly sophisticated in technology and which means that ancillaries are also highly sophisticated and the units are capital-intensive in nature. One of the main criticisms against the present small industry programme with respect to modern small industry sector is that certain sub-sectors of this category are as capital-intensive as the large industry. If this is extended to the nucleus complexes strategy also, it is suspected whether the employment generation aspects gets relegated to the background. In fact, as PN Dhar mentioned "there is no such technical gulf between a small electric motor factory and large electric motor

* Associate Faculty Member, SIET Institute, Hyderabad.

factory as there is between gur and the vaccum pan sugar making or between bullock carts and bicycles".* While the nucleus complexes strategy envisages the growth of ancillaries, it is quite obvious that the type of ancillaries which will come up is *ipso facto* determined by the nature of major industries set up.

It is therefore necessary to choose such industries which are labour-oriented eg., match complex, electronic goods, etc. The point which is to be considered is that while the strategy is to develop backward areas, we have to take into account the earlier experience of setting up large industries in such areas. It is also to be examined whether it is possible to set up complexes which are interrelated, where more than one complex is contemplated. The earlier single unit approach has not made significant impact and therefore the present approach of developing complexes has a more comprehensive coverage.

Identification of Industries

The second issue which is to be considered in this context is the integration of the industrial programme with the resource-base of the region. Resource-base need not necessarily mean agriculture alone. As Menon points out "to start with the districts or areas where gainful employment can best be created by establishing industrial projects and not by encouraging development of agriculture, animal husbandry, agro-based industries, etc., have to be identified. Once these areas have been identified the suitable resource based and other industrial projects would have to be identified having regard to the local skills and pattern of demand."** This aspect is important in the sense that the necessary impetus for industrialisation comes from within the district itself. While selecting nucleus plants to the extent possible it is desirable to identify industries which will have the relationship to the local resource or local demand. This does not, however, imply that these alone will be sufficient to sustain the industry.

* Small Scale Enterprise Development in "Reflections on Economic Development & Social Change", Ed. CH Hanumantha Rao and PC Joshi, Allied Publishers Ltd.

** "Backward Areas Development - an Indian Experiment" by KVS Menon.

In the nucleus complex approach both the nucleus plant and the ancillary units are important to each other, but both of them are equally important for the industrialisation of the district. Logically, therefore, sufficient care must be bestowed in the choice of industries.

Development of skills

In the backward areas where large investments are planned, the skills may place a limit on the investment. It is, therefore, imperative that the skill development should be planned along with the other complementary inputs like infrastructure. If this is not rigorously planned there will be certain 'leakages' from the incomes generated in the areas - in the form of non-accrual of incomes to local people.

This happens mainly because the skilled labour have to be imported from other regions, if they are not locally available. Therefore, while the industries are selected it should be planned to employ as many people as possible from the local areas. It may be said that there is vast army of unemployed but it is doubtful whether the required skills are present. It is but necessary to promote the required skills. In suggesting that the local skills be developed, we are not implying the sons of the soil theory at all!

The second type of leakage occurs mainly because the increased incomes that are generated as a result of the massive investment in the nucleus complexes are spent on goods which may have been imported from outside the region. While this is bound to be so since the district economy is open, it should be possible to plan these industries so that the goods can be locally produced to meet the local demand. In other words, what is advocated here is that taking into consideration the inter-regional specialisation, it should be possible to meet the basic consumer goods demand also. Otherwise, the multiplier effect will be smaller as a result of the leakages. Future pattern of industry of the region itself must be considered while identifying the Nucleus Complexes.

However, it is not suggested that every district should produce every commodity, as this is neither desirable nor practicable considering the specialisation. But what is envisaged is that the impact of the nucleus plants in terms of increased

incomes and increased demand for goods and services should be anticipated. While the nucleus complexes programme cannot itself take care of these aspects, it is necessary to visualise the future requirements of the district and plan accordingly. If this is done, a great deal of benefit in terms of spread effects will be accomplished by the nucleus complex programme.

New pattern of incentives

Lastly, the question which looms large is the very process of establishing industries in backward areas. So far, the concept of industrialisation of backward areas is never delinked from the concept of giving financial incentives, subsidies and so on. But, the time has come, perhaps, to reconsider the whole gamut of the issues related to it. A simultaneous heavy investment in infrastructure in the backward district alone should be the sufficient and necessary pre-condition for attracting industries. It is difficult to go into the several aspects of the assistance here, but suffice it to say that one need not be over-enthusiastic in suggesting uniform financial incentives to all districts. A well coordinated approach of undertaking promotional measures should be the policy goal. Provision of infrastructure which is developed at a great cost will be sufficient to reduce the costs of setting up the plants in the backward areas in most cases. If, however, incentives are also needed in some cases, they should be graded according to the backwardness of the district, and the type of industry that is to be set up. At any rate there should be a time limit for which these incentives will be made available. Certain patterns on which incentives can be devised are: employment intensity, linkages with the regional economy and period of the establishment of the unit. These may be considered while granting a new package of incentives to be evolved for the massiveness of industrialisation visualised in the nucleus complex approach.

Contd.

Names of Chairmen and Rapporteurs of Business Session

Session	Chairman	Rapporteur
1. Theme-I Concept and Planning	Shri R Srinivasan Jt. Secretary Ministry of Industry Govt. of India NEW DELHI	Shri MAK Lodi SIET Institute
2. Theme-II Implemen- tation	Dr. P D Ojha Chief Officer Industrial Finance Department Reserve Bank of India BOMBAY	Shri D. Nagaiya SIET Institute
3. Theme-III Organisa- tional Support	Shri G C Goswamy Director of Industries Govt. of Assam GAUHATI	Dr. Bhagwan Prasad SIET Institute

List of Delegates

1. **Dr. Ram K. Vepa**
Development Commissioner
(SSI), Government of India
New Delhi
2. **Shri R. Srinivasan**
Joint Secretary
Deptt of Industrial Develop-
ment, Government of India
New Delhi
3. **Dr. P. D. Ojha**
Chief Officer
Industrial Finance Depart-
ment, Reserve Bank of India
New India Centre
17 Cooperage
Bombay 400 039
4. **Shri H. R. Verma**
Joint Adviser (V & SI)
Planning Commission
Yojana Bhavan, Sansad Marg
New Delhi 110 001
5. **Shri A. N. Ghosh**
Industrial Adviser (Anc)
Office of the Development
Commissioner (SSI)
Nirman Bhavan (South Wing)
7th Floor, Moulana Azad
Road, New Delhi 110 011
6. **Shri N. S. Duggal**
National Industrial Develop-
ment Corporation of India
P.B. No. 5212, Chanakya
Bhavan, Vinay Marg
New Delhi 110 021
7. **Shri Gopalachandra Goswami**
Director of Industries
Directorate of Industries
Government of Assam
Bamunimaidan
Gauhati 781 021 (Assam)
8. **Shri Sukumar N. Oommen**
Director of Industries
Government of Tripura
Agartala (Tripura)
9. **Shri P. Subba Rao**
Director of Industries
Government of Sikkim
Gangtok 737 101
10. **Shri G. S. Kang**
Director of Industries
Bihar
11. **Shri P. Vanamali**
Addl. Director of Industries
Department of Industries
Govt. of Andhra Pradesh
Chirag Ali Lane
Hyderabad 500 001
12. **Shri B. N. Vijaya Kumar**
Joint Director (DIC)
Directorate of Industries
& Commerce
Govt. of Karnataka
14/3 Nrupathunga Road
Bangalore 560 002
13. **Shri K. Venkateswara Rao**
Joint Director
Dept of Industries
Chirag Ali Lane
Hyderabad 500 001
14. **Shri R. C. Jain**
Chief Coordinator
Directorate of Industries
Govt. of Punjab, Sector 17
Chandigarh 160017 (Punjab)
15. **Dr. Jagjit Singh**
Secretary General
Institute of Marketing
and Management
62-F Sujjan Singh Park
New Delhi 110 003

Proceedings of the National Seminar on Nucleus Complexes

16. Shri D. B. Sahee
Managing Director
UP Industrial Consultant
Handloom Bhavan (5th Floor)
Directorate of Industries
Compound, G. T. Road
Kanpur 208 005 (UP)
17. Shri D. Mallikarjuna Rao
Managing Director
APITCO, Basheer Bagh
Hyderabad
18. Shri K. C. Narayanan
Director
Small Industries Service
Institute
'SWARNA VILAS', 3-4-812
Barkatpura
Hyderabad 500 027
19. Shri G. V. Ramana
National Productivity Council
New Delhi 110 003
20. Shri V. Srinivasan
Chief Officer
SI & SB Banking Department
State Bank of India
New Administrative Building
Opp: Sachivalaya
Bombay 400 032
21. Shri K. Venkateswar Rao
Development Manager
Small Industries & Business
Banking Division
State Bank of India
Local Head Office
P. B. No. 125
Hyderabad 500 170
22. Shri A. K. Subramaniam
General Manager (Monitoring)
APSSIDC Ltd
Parishram Bhavan
Basheer Bagh
Hyderabad
23. Shri K. Nagaraj
Dy. General Manager, Projects
HMT Ltd.
36, Cunnigham Road
Bangalore 560 052
24. Shri M. S. Parikh
Dy. General Manager
(Technical), Industrial Development Bank of India
Nariman Bhavan
227, Vinaya K. Shah Marg
Bombay 400 021
25. Shri V.S.V.R. Acharyulu
Financial Adviser
Department of Industries
Govt. of Andhra Pradesh
Chirag Ali Lane
Hyderabad 500 001
26. Shri G. B. Marathe
Associate Manager
State Industrial & Investment
Corporation of Maharashtra
(SICOM), Nirmal
Nariman Point
Bombay 400 021
27. Shri K. F. A. Ansari
General Manager
A.P. Industrial Infrastructure
Corporation Ltd.
Parishram Bhavan
Basheer Bagh
Hyderabad 500 029
28. Shri S.P. Nanda
Project Director
Chandaka Industrial Complex
IP ICOL House, Janpath
Bhubaneswar 751 007
Orissa
29. Shri V. Somashekar
A.P. Indl. Infrastructure
Corporation Ltd.
Parishram Bhavan
Basheer Bagh
Hyderabad 500 029
30. Shri A. Venkat Rao
Development Officer (DIC)
Department of Industries
Chirag Ali Lane
Hyderabad 500 001

Proceedings of the National Seminar on Nucleus Complexes

31. Shri R.K. Mehta
C/o Centre of Plant Engg.
Services, Copes House,
1-10-175, Begumpet
Hyderabad 500 016
32. Shri H.N. Rajkumar
Technical Consultancy Corpn.
of Karnataka
Directorate of Industries &
Commerce
14/3, Nrupathunga Road
Bangalore 560 002
33. Shri Bhanu Sanghani
Director
UNICORN Industries
Secunderabad 580 003
34. Shri V.N. Murthy
Sr. Consultant
APITCO, Basheer Bagh
Hyderabad 500 029
35. Shri T.V.L. Narasiah
Secretary
Council of Small Industries
Corporation of India
Flat No. 910, Padma Tower-1
Rajendra Place
New Delhi 110 008
36. Shri M. Venkat Rao
Secretary
Federation of A. P. Chambers
of Commerce & Industry
Hyderabad
37. Shri T. Padmanabham
Member-Secretary
A.P. Nutrition Council
Hyderabad
38. Shri S.G. Raghu
Principal Director
SIET Institute
Yousufguda
Hyderabad 500 045
39. Dr. Bhagwan Prasad
Director (Industrial Develop-
ment) SIET Institute
Yousufguda
Hyderabad 500 045
40. Dr. J. B. Subramaniam
Director (Documentation
Deptt) SIET Institute
Yousufguda
Hyderabad 500 045
41. Shri K. Gopala Rao
Director I/c (Industrial
Management)
SIET Institute
Yousufguda
Hyderabad 500 045
42. Shri S.K. Bhattacharjee
Director I/c (ABS Department)
SIET Institute
Yousufguda
Hyderabad 500 045
43. Shri D. Nagaiya
Sr. Faculty Member (Indust-
rial Development Deptt.)
SIET Institute
Yousufguda
Hyderabad 500 045
44. Shri A.P. Bopardikar
Sr. Faculty Member
SIET Institute
Yousufguda
Hyderabad 500 045
45. Dr. E. Desingu Setty
Faculty Member
SIET Institute
Yousufguda
Hyderabad 500 045
46. Dr. B. Sudhakar Rao
Associate Faculty Member
SIET Institute
Yousufguda
Hyderabad 500 045

Proceedings of the National Seminar on Nucleus Complexes

47. **Shri N.R.K. Swami**
Associate Faculty Member
SIET Institute
Yousufguda
Hyderabad
48. **Shri J.B. Ramkumar**
Associate Faculty Member
SIET Institute
Yousufguda
Hyderabad 500 045
49. **Shri J. Subba Rao**
General Manager
District Industries Centre
Sangareddy (Medak Dist.)
50. **Shri M. A. K. Lodi** (*Seminar
Director*)
Faculty Member
SIET Institute
Yousufguda
Hyderabad 500 045

Proceedings of National Seminar on Marketing of Khadi and Village Industries Products

The National Seminar on Marketing of Khadi & Village Industries Products, held at the SIET Institute, Hyderabad on 31st August-2nd September 1981 was sponsored by the Ministry of Rural Reconstruction, Government of India and organised by the SIET Institute.

Theme I: Policy Support

Shri M. R. Pai
Chairman

Smt. Vanaja Rao
Rapporteur

The following items were discussed with the theme "Policy Support".

1.1 Enlarging the schedule of industries under Village Industries Sector

1.1.1. Divergent views were expressed in regard to the definition of Village Industries. While some felt it desirable to define the sector in terms of the size of financial outlay or the scale of operation, others considered it impractical because the nature of some of the Village Industries is such that the outlay has got to be minimum. Village Industries like hand-made paper involve large investment. It was, therefore, considered more appropriate to define the Village Industries as one which could efficiently function anywhere using locally available raw materials and meeting the local needs of consumption, irrespective of the size of investment. In respect of enlarging the schedule of industries, it was suggested that those who needed help or support in terms of technology and those industries which were declining, should receive high priority.

1.2 Reservation of items for production

1.2.1. If khadi and village industries sector had to increase production, the problem was not merely one of production but of meeting the tastes and the demand for increasing mass consumption goods. This could be done with the support of the government. From the administrative

point of view, reservation of items was an easy task but it had to take into account the capability of units to produce quality goods in the required quantities. It was noted that even the needs of the consumer had not been fully studied. It was also very necessary to identify the consumers of KVI products before identifying the needs of the consumers.

1.2.2. Reservation of items should take into account the nature of market potential and production capacities. Processing of cereals, oils, manufacture of soaps, and manufacture of paper have high potential for growth and should be reserved for the KVI sector.

1.2.3. Another point of view was that reservation of items for village industries was not of much use when there was already reservation for small industries.

1.2.4. It was felt that unless production in the village industries sector could be increased, reservation of items for this sector would only create scarcity of the product.

1.2.5. It was also felt that reservation of items might push up the prices. The type of enforcement machinery required would also require consideration. The policy measures as in the case of reservation or supply or even subsidy for raw materials should give least scope for abuses though one could not completely eliminate this.

1.3. Reservation of items for Government Purchase

1.3.1. As regards supply of various items from the KVI sector it was noted that the Government's procurement formed only a small fraction of the total purchases of government departments and had not made much headway. Reservation on paper would not be of much help, unless it was ensured that Government orders were actually placed with the sector. Perhaps agencies which audit purchase transactions could be asked to check whether appropriate efforts were made to secure supplies from KVI agencies before placing orders with private suppliers. For purchases by Government's Department/Under-takings certain facilities were extended if the unit was registered with NSIC. Such facilities were to be extended for units under KVIC/KVIBs.

1.4. Creation of a revolving fund

1.4.1. The concept of revolving fund had already been adopted by KVIC as in the case of seeds for ghani oil.

1.5. Reservation of critical raw materials

1.5.1. Identification of critical and scarce raw materials should be taken up immediately. The criterion for defining a critical raw material should be laid down after due consideration keeping in view the distinction between temporary shortage and a continuous shortage. Institutions incharge of distribution of such raw materials should, as far as possible, receive their quotas on replenishment basis to prevent abuses.

1.5.2. Reservation of raw materials was needed only when there was a competing demand from the factory sector. If targets of production in the cottage sector could be fixed in advance, in certain industries eg., the cottage match industry, KVIC or KVIB should be prepared to accept the responsibility of stocking and distributing the chemicals and government should allocate quotas for the purpose. Bricks, cement and steel required for gobar gas were yet other examples where quotas should be fixed for the programme to be implemented.

1.6. Equalisation of prices of raw materials for homogenous products

1.6.1. Equalisation of prices of raw materials was desirable but the problem was that it was very difficult to implement. It was feasible only in certain special cases e.g., imported raw materials but for other raw materials the advantages might not be commensurate with the effort involved.

1.7. Technological support for product improvement

1.7.1. As regards technology transfer, it should be done on a massive scale but in such a way that it would not upset the production system in rural areas. It was found that despite the introduction of new model charkhas, the old model charkhas were still being preferred for various reasons.

1.7.2. Unresolved scientific and technological problems should actively be taken up by research organisations. The case of honey was cited as an example where the moisture content was reduced, quality improved and the product made fit for consumption with the help of ISRO.

1.7.3. The VI plan envisaged setting up of 240 technological centres and these should render assistance to the artisans in respect of the type of technology to be used.

1.8. Allocation of institutional finance for marketing operations

1.8.1. Finance for marketing was as important as that for production. The RBI has instructed banks to provide marketing finance for decentralised activities and that too at concessional rates. A number of commercial banks were evincing interest in this regard.

1.9. Public distribution system

At present there were 3,500 outlets for distribution within the KVI system. If, in addition, the public distribution system was to be used for KVI products, inadequate advertisement and publicity and lack of continued supply would come in the way. However, public distribution system could be used for products like match boxes, soaps where the supply could be assured. Bigger organisations like Brooke Bond which had more than 10,000 distribution outlets could also be tapped for this purpose. If the help of larger private companies for marketing was to be thought of, the arrangements had to be spelt out very clearly.

1.10. Miscellaneous

Ultimate finishing makes the product glamorous and attractive and the type of packing is important in marketing. The KVI should fix up necessary standards and determine the highest standard which could be achieved in the cottage and rural industries. It could take up this matter with ISI etc. The Government media should allot a certain amount of time for publicity to khadi and village industries sector. The production machinery had to be geared up so as to stick to time schedule for deliveries. Government should give top

priority to cottage and rural industries by bringing out an annual report about their performance in order to give wider publicity to this sector. Exemption from sales tax (including purchase tax) for KVI products had been offered only by a few States. This benefit should be extended to the products by all the states. Submission of returns even when exemption was given would be irksome. Where exemption was given, the concerned unit might be waived from submitting separate return and submit only a copy of the audited balance sheet.

Theme 2: Channels of Marketing

Shri M. K. Kaw
Chairman

Shri N.R K. Swami
Rapporteur

2.1. The following eight points have been discussed in this session:

- (i) **Strengthening of Khadi Gramodyog Bhavans and Bhandars, by attracting managerial talents; upgrading skills of sales-staff and their locations**
- (ii) **Private and Cooperative Channels:**
Their inadequacies and measures to activate them
- (iii) **Setting up of Rural Marketing Centres:**
Choice between single product and multi-product centres - their linkages with DICs and other developmental agencies
- (iv) **Use of normal retail outlets**
- (v) **Additional channels to be set up**
- (vi) **Utilisation of expertise with the corporate sector**
- (vii) **Specialised channels for exports: Export Promotion Council vs. KVIC being declared as an export house**
- (viii) **Promotion of marketing by entrepreneurs**

2.1. Strengthening of Sales Outlets

2.1.1 At the outset the Chairman mentioned that the objective of the session was to come up with specific recommendations which would form the basis of follow-up action, and hence the participants were requested to be specific in their suggestions.

The first item was discussed under three parts viz., strengthening of Gramodyog Bhavans and their locations; attracting managerial talents; and upgrading skills of sales staff.

2.1.2 The discussions started with emphasis on the need for face lifting of Bhandars; building up of adequate stocks to be available all through the year which meant planned production. It was pointed out in this context that eighty percent of the customers of Khadi were new and 20 percent were traditional users. The new customers were mainly attracted by the introduction of new varieties and ready-made garments and fancy goods. It was also noted that the present network of distribution was inadequate and, therefore, this had to be strengthened. Regarding the location of Bhandars it was felt that in the new markets that were coming up, getting a place was a problem because of high rent. It was recommended that in every new marketing place, a shop should be made available for a Khadi & Village Industries Bhandar at a reasonable rent.

2.1.3 Presently, there were two KVIC centres for training in salesmanship located at Trivandrum and Bombay. However, it was felt that there was genuine need to expand the training facilities in order to improve the efficiency of the sales staff. While the Khadi Commission had no objection to increase the outlets for training, the difficulty was in finding a substitute when a person was deputed for training.

2.1.4 While recognising the need for training, the discussion was focussed on the mode of training. It was pointed out that ideally training should be organised at local places and in local languages. For the purpose of training facilities already available with the KVIC, cooperation of universities and other rural training institutes could be enlisted. But, here, the difficulty would be that the participants had to go to these Institutes for training. Since the trainees could not be away from the jobs for long periods, it was suggested that an intensive short duration training should be imparted. In this context, it was also mentioned that besides the classroom sessions, importance should be given to practical training also. Trainees should have access to the Bhandars for the purpose of practical training.

2.1.5. The most difficult problem in attracting suitable managerial personnel was the low levels of pay. However, on this point there were divergent views. While one group of participants felt that the present pay scales were sufficient and it should also be possible to pay better scales provided the sales were good. Further, there was already a scheme for managerial subsidy for new Bhandars. It was pointed out as an example, that the Khadi Gramodyog Bhavan in Madras was able to pay its employees good salary plus gratuity and pension etc., because the sales were good.

2.1.6. In this context a point also emerged in regard to the possibility of fixing up of higher margin for some products to subsidise those where the margin could not be high; this was an issue of rigid costing vs. flexible costing. It was, however, felt that this might lead to malpractice. While fixing up the margins, it should, however, be realised that in the long run Khadi had to compete with the mill sector.

2.1.7. The consensus emerged that providing incentives to the sales staff might be one of the solutions. However, some kind of incentives for better sales were already existing in the present set up.

2.2 Private and Cooperative Channels : their inadequacies and measures to activate them

2.2.1. The question whether the products of KVI should be made available through privately owned outlets at railway stations, airports, hotels etc., and also whether other private outlets could be encouraged to take these products was discussed. Considerable emphasis was laid on the fact that this could lead to problems particularly in regard to Khadi and Ghani-oil in view of the possibility of selling fake khadi and adulterated oil.

2.2.2. It was, therefore, considered desirable that there should be some kind of certification procedure under which the private individual owner would have to obtain a certification from the Commission or the Board, in order to avoid the malpractice of selling handloom for Khadi. It was felt that khadi of requisite quality was not sold in all stores. However, village industries products were not barred from being sold in private outlets.

2.2.3. In respect of cooperatives, it was noted that many of the cooperatives were defunct because of lack of proper management. At present there was no sound management of cooperatives. With added facilities for training, they could be revitalised. The discussion did not go into details as a separate seminar would be held on the subject later. However, there was a suggestion that in the consumer cooperatives, super-bazaars, counters could be opened by KVIC.

2.3 Setting up of Rural Marketing Centres (RMCs)

Choice between single product and multi product centres – their linkages with DICs and other developmental agencies

2.3.1. RMCs was a concept promoted by the All India Handicrafts Board. Under this concept, it was to act as an agency for supplying raw materials and also taking responsibility of selling. Presently, Khadi Commission had succeeded in making this arrangement in the case of Khadi Sector, but it had to be extended to the village industries also. It was decided that RMC should have multi-product line.

2.3.2. While accepting the RMC as a useful agency, it was found that it had to be restricted to Khadi and Village Industries products only, if KVI Institutions were to act as RMCs. In respect of DIC, it was mentioned that its responsibility was mainly of coordination, credit support and technical support but the DIC had no executive responsibility.

2.4. Use of normal retail outlets

All the outlets like private individuals etc., had already been discussed earlier.

2.5. Additional channels to be set up

It was felt that while there was need for additional channels, none could be visualised readily.

2.6 Utilisation of expertise with the corporate sector

2.6.1. The point under discussion was whether the corporate sector could provide assistance to KVI products in marketing. It was concluded that there was no ideological disagreement on this but the details would have to be worked

out very carefully. One view, however, was that in the long run it might be detrimental to the KVI sector because the big companies might lose interest in the product if it was not profitable for them to sell these products. Ultimately, the artisan would be the sufferer. It was also noted in this context that, even if items were reserved for production in this sector, they were not reserved in marketing and therefore, they had to face competition from other sectors. It was, therefore, felt that the expertise available with corporate sector could be used for this purpose. While realising that there was a possibility of exploitation by the corporate sector, it was noted that this collaborative arrangement should be explored. Further, it was considered desirable that marketing organizations should be identified which could undertake marketing of KVI products. As a first step, SIET Institute in collaboration with KVIC could prepare a base paper in this regard and later on a short workshop could be organised, to work out the modalities. It was also suggested here that various chambers of commerce could be involved in this workshop.

2.7 Specialised channels for exports :
Village Industries Export Promotion Council Vs.
KVIC being declared as an Export House

2.7.1. KVIC was already an export house but not much effort had been made in regard to exports. The total recorded exports at present were approximately Rs. 3 to Rs. 4 crores. Handmade paper, agarbati, papad and palm fibre were some of the items being exported by some agencies connected with their production.

2.7.2. Only in the case of leather, there was an attempt by KVIC to take advantage of the export market. But, the present share allocated to KVIC by STC is not significant. It was, therefore, recommended that there should be a clear cut policy on the part of STC to allocate export orders to KVIC.

2.7.3 It was emphasised that KVIC should choose one or two markets rather than dissipate the effort. IIFT had already conducted several studies in export potential of certain districts in regard to village industry products. The consensus that emerged was: (1) that the literature already available with IIFT, TDA etc., should be studied; (2) KVIC should have a separate cell with a Director in-charge for export promotion;

and (3) IIFT could undertake research studies on behalf of the KVIC and also could develop a wing for KVIC to study its problems. Later on some executives of KVIC could visit selected foreign countries. It was also recommended that IIFT could organise a workshop on Export Promotion of KVI products.

2.8 Promotion of marketing entrepreneurs

2.8.1 So far the focus was on Entrepreneurial Development for manufacturing activity but since there was a large scope for entrepreneurship in the tertiary sector these could be promoted to undertake marketing also. It was, therefore, suggested that Institutes which were running ED programmes could include development of marketing entrepreneurs also in their courses. Regarding funding to these entrepreneurs, it was felt that ISB and IRD could provide assistance in addition to the banks. However, it was mentioned that KVIC would not go into retail trade by individuals of goods not produced by KVI artisans or undertake financing without security. The difficulty in regard to marketing entrepreneurs was that they would not be able to sustain themselves by selling KVI products alone.

Theme 3: Marketing Strategy

Sri MR Kaw
Chairman

Mrs. S. Mirchandani
Rapporteur

3.1 The following points were discussed :

- 1. Publicity**
- 2. Mechanics of discounts and rebate**
- 3. Sales management suitable for KVI Sector**
- 4. Organisational Support: Role of KVICs, State KVI Boards and other voluntary organisations support**
- 5. Product pricing**
- 6. Working capital**
- 7. Introduction of brand, standardisation, packaging and quality control measures**

8. Ways and means to increase export of KVI Sector

9. Marketing intelligence

3.1 Publicity

3.1.1 There was considerable discussion on whether there was need for aggressive publicity at all. Certain items like palmgur, it was felt, required no publicity. Another point of view was that publicity would create demand. Unless production was geared up to meet this increased demand, the objective of publicity would be lost. On the other hand, there were items about which the public had no knowledge. An example in this case was the cricket ball which was manufactured in the leather sub-sector of the village industries. So far, there had been no publicity of brands particularly in the case of Khadi. It was felt that publicity should be for a product which was easily available. Presently, publicity was given to khadi, only at the time when rebates were extended.

3.1.2 The suggestions which emerged *vis-a-vis* publicity were (1) publicity should be given to products which are easily available; (2) the salient features or unique selling points should be highlighted for each and every product. For instance, in the case of Kutir soap, the public should be told that it contains 40% neem oil and was made of pure vegetable oil. KVIC should select the unique features and feed them to the advertising agencies which would be responsible for the campaigns; (3) in the case of new brand name/new packaging, test marketing should be done through a professional agency and feed-back obtained; (4) uniform hoardings should be designed by the advertising agency in collaboration with the KVIC for display all over the country; (5) slogan competitions for youth could also be another media for creating an awareness for KVIC among the younger generation; and (6) publicity should be handled by professional agencies.

3.2 Mechanics of discounts and rebate

3.2.1 The *pros* and *cons* of extending rebates were discussed and the question was raised as to how long the subsidy should continue. Some of the delegates felt that high priced high quality items required rebate so as to make their

price competitive with similar items produced by other sectors. Others felt that even some of the high quality items did not need a rebate. Low quality items might not need the rebate if the price was competitive. It was also felt that the rebate of KVIC could be withdrawn, if rebates offered by the other all India boards like handicrafts, handloom, silk were also done away with.

3.2.2 It was suggested that there should be timely announcement of rebates and subsidies sanctioned by the Central Government so that adequate publicity was given and arrangements for matching grants were obtained from some of the State Governments. Besides, a hand-out should be brought out on "Why subsidies for Khadi" - this would be a comparative study with prices and costs in other sectors.

3.3 Sales Management suitable for KVI Sector

3.3.1 There was a general consensus that the sector was faced with special problems in areas of management—commercial, technical and financial. It was felt that the low pay scale was a deterrent to attract qualified personnel. The need for a trained cadre of managers was emphasised as the self-taught managers are disappearing with no replacements.

3.3.2 A plea was made that instead of blaming the government, robust marketing should be undertaken. A beginning should be made through door-to-door sales at the district levels for students in hostels for backward classes.

3.3.3. It was recommended that: (1) a cadre of managers for KVI be created. About 50 persons would be recruited through advertisement may be exposed to a management programme oriented to KVIC. The training inputs would include technical detail pertaining to KVIC, maintaining of khadi accounts as well as modern management techniques; (2) an Institute along the lines of Institute of Rural Management could be thought of. A reference was made to the MA course in Rural Industries and Management which was scheduled to start next year at the Rural Institute, Gandhigram, which may act as a training ground. (3) Another proposition was creation of an all India cadre devoted to rural management.

3.4 Organisational Support

3.4.1. It was felt that this theme overlapped with Marketing Intelligence; hence the two were discussed together. The focus of discussion was on marketing problems; lack of market information; marketing infrastructure at Board level and marketing expertise. The purchase operations of the Bhandars were described. The communication gap-between the personnel manning the sales counters and those stocking the bhandar shelves was noted. The operations of voluntary agencies both in procurement and sales was commended. The other problem facing the Commission as well as the State Boards, was lack of technical staff for promoting exports. The Deputy CEO for the KVIC made a plea for strengthening the marketing research cell and gave the gist of the scheme prepared by the Industrial Development Consultancy Organisation. The various ways and means of collecting marketing information and ensuring a feedback to the procurement agencies and production centres were discussed.

3.4.2. There was no uniform pattern regarding the powers vested in managers of Bhandars. In some cases, the managers have autonomy to make purchases whereas in others, there was a committee which decided on the purchase. How far the consumer preferences are intimated to these committees is a moot point. It was felt that market intelligence system supported by evaluation and monitoring be developed both at the KVIC and the Board level. But, it was also noted that this might lead to delay in dissemination of information and there was no real need for centralising regional information. The lack of committed salesmen was again emphasised as was the need for training in salesmanship.

3.4.3 The recommendations which emerged were:

- (1) Strengthening the Directorate of Marketing of KVIC;
- (2) Creation of Industry-wise cells at the Commission;
- (3) Establishing Marketing cells at State Boards. The Marketing Officers should be given some technical orientation or additional technical cells created; and
- (4) Some system should be devised wherein information flow is established between the sales-staff and the managers, store-keepers and production centres.

3.5 Product Pricing

3.5.1 This item came in for lot of discussion as to whether product should be sold on a no-profit no-loss basis, cheapest possible rate or what the consumers can bear. A point was also raised that if the lowest possible rate was fixed, consumers would doubt the quality of the product. The problem of ensuring uniform prices at all Bhandars was also highlighted.

3.5.2. It was stressed that there is every need for change in traditional thinking.

3.5.3. Regarding price fixation, it was strongly recommended that khadi and village industries should be oriented to commercial way of thinking. The price should be fixed taking into account the cost, the interest overheads and 12½% to 15% margin. The margin would vary according to the demand and its elasticity. Hence, pricing policy for each item should be different.

3.5.4. On fast moving items the margin should be kept low, whereas on slow moving items a higher margin should be added, to cover the cost of capital invested in those items. Where it was possible to secure high margin, the benefit should go to the artisans.

3.5.5. Old stocks should be cleared quickly from the shelves, even if it meant selling at cost price instead of holding them at the prices fixed.

3.5.6. It was felt that presently the Bhandar personnel had no knowledge of price fixation.

3.5.7. Emphasis was laid on quality

3.5.8. The recommendations which emerged were:

(1) No thumb rule regarding price fixation but cost plus formula to be adopted for each item. No uniform policy of 20% margin for khadi. (2) Adoption of business principles for pricing would require change in certification rules. The KVIC could examine this aspect. However, consumers' interests should be protected (3) Depreciation should be provided for

in the pricing. (4) Bhandar personnel should be exposed to costing procedures, (5) Avoidance of under-cutting of prices between Bhandars, (6) Serious implementation of decisions taken.

3.6 Working Capital

3.6.1 Till recently the KVIC had been providing the working capital. In the Sixth Plan, KVIC assessed its need for Rs.520 crores of working capital. The Khadi Commission has now suggested to the major institutions that they should secure their working capital requirements from financial institutions. One of the leading bhandars described its pleasant experience in securing working capital of Rs.4 lakhs within 48 hours. The fact that the Commission continues to bear 9½ out of 13½ interest which the Bhandar was required to pay to the bank was highlighted. The CEO of Khadi Commission expressed his doubts as to whether the working capital formula which was adopted by the Commission would be acceptable to banking institutions.

3.6.2. It was recommended that a national dialogue between the KVIC, RBI and certain other banks be initiated and a small committee formed to discuss the formula for extending working capital to KVICs. A nationally accepted formula should be evolved. This should be brought out in a brochure form and distributed to the State boards, Members of Indian Banks Association and organisations involved in promotion of Khadi and Village Industries.

3.7. Introduction of brand, standardisation packaging and quality control measures

3.7.1. It was stated that in the case of items of standard quality, which were produced on large scale and catered to all India markets, the scheme of internal certification would be possible. It was further stated that wherever standardisation was possible, brand names would be given as in the case of toilet soaps, agarbathi, matches, etc. A plea was made to extend the brand name to washing soap also, by the representative from Tamil Nadu. As regards the packaging, it was particularly felt that uniform type of plastic containers should be devised for honey. Attention was drawn to the fact that Indian Institute of Packaging has already given some suggestions regarding the packaging of honey.

3.7.2. It was Recommended That (1) an internal certification scheme for those products of standard quality which were produced on a large scale and have an all India market should be introduced. Such a certificate would automatically be a hallmark of quality. (2) Suggestions made by the Institute of Packaging *vis-a-vis* uniform containers for honey should be quickly implemented. (3) The KVIC logo should be stamped on all products and packagings.

4- General Recommendations

4.1. A workshop on publicity could be organised where modalities of publicity campaign should be discussed.

4.2. A full scale seminar on pricing policy should be held where large and small institutions should be represented.

4.3. Industry-wise marketing seminars: Marketing will include product development; priority items for which such seminars may be held are: a) leather, b) honey, c) cottage match, d) pottery-production-cum-marketing seminar e) soap, f) handmade paper, g) export of fibre products.

Contd:

List of Documents

Doc. No. 1	Policy Support for Marketing	KVIC, Bombay
„ 2	Marketing Strategy for Khadi Products	KVIC, Bombay
„ 3	Marketing Strategy for Village Industries Products	KVIC, Bombay
„ 4	Khadi Gramodyog Bhandar -A Case Study	Shri A.V.K. Sharma, SIET Institute, Hyderabad
„ 5	Extracts from Marketing of KVI Products: Abstract from the Report "Village Industry Profile Organisation Study"	Administrative Staff College of India Hyderabad
„ 6	Extracts from the Study of Khadi Marketing - Objectives, Strategy and Operational Policies	Indian Institute of Management, Ahmedabad
„ 7	Marketing of KVI Products : Some Issues	Dr. Bhagwan Prasad SIET Institute, Hyderabad
„ 8	Extracts from "Rural Marketing - A Pilot Study"	Indian Institute of Management, Ahmedabad
„ 9	Export Marketing of Handicrafts Including Rural Industries Products	Dr. P.L. Varshney Indian Institute of Foreign Trade, New Delhi
„ 10	Proceedings of National Seminars on TRYSEM and Rural Industries : Main Recommendations on Marketing	National Institute of Rural Development, Hyderabad

Proceedings of National Seminar on Marketing of KVI Products

- 11 **Marketing of Khadi and Village Industries Products** **Shri C. D. V. Raghavulu, Khadi Gramodyog Bhavan, Madras**
- 12 **Extracts from Report on Village and Cottage Industries : National Committee on the Development of Backward Areas** **Planning Commission Government of India, New Delhi**

Policy support for Marketing

The Planning Commission had constituted a Working Group on Khadi and Village Industries under the Chairmanship of Shri S. C. Varma, Secretary, Ministry of Rural Reconstruction. The group has in its report* dealt in detail on various problems and inadequacies of present marketing set-up of KVIC and has suggested measures and policies to be adopted for future.

The present arrangements of the KVIC existing today and the measures to be taken to revolutionise the whole marketing organisation of KVIC as suggested by the Working Group are indicated below for promoting the discussion.

1. In order to provide for marketing of khadi and products of village industries, KVIC has evolved a network of distribution channels consisting of Khadi Gramodyog Bhavans in metropolitan cities of the country, 3,500 Khadi Gramodyog bhandars and 7,500 production-cum-sales outlets at the production points. Out of 116 Khadi Gramodyog Bhavans in the country, 6 are run departmentally by KVIC. These bhavans play important role in the marketing of KVI products and act as clearing houses. In addition, there are certain departmental sales activities for different products such as leather, matches, honey, handmade paper, fibre articles etc. In addition, KVIC has made the following arrangements for promotion of sales :

- i) KVIC is providing sales rebate at 10 per cent of the value of sales price to the consumer for cotton khadi and certain selected varieties of woollen and silk khadi and additional rebate at 5 to 10 per cent during the special rebate period as a sales promotion measure for all varieties of khadi. In the case of village industries, however, there is no such sales rebate.
- ii) KVIC provides grants for opening of new khadi gramodyog bhandars and bhavans and renovation of old bhandars and bhavans. In addition, grants

*Prepared by : Khadi & Village Industries Commission, 3, Irla Road, Vile Parle, Bombay-400036.

Proceedings of National Seminar on Marketing of KVI Products

for gramodyog sales depots are also sanctioned. Working capital is provided to agencies undertaking sales of KVI products.

- iii) Salesmanship training is imparted to candidates to be appointed at various sales counters of bhavans/bhandars.
- iv) KVIC has formulated cost charts for a number of commodities. KVIC has introduced quality control measures such as testing, certification for genuineness, agmarking, ISI specifications and use of brand names. Recently, it has designed and publicised an emblem for KVI products.
- v) It provides financial assistance for organising exhibitions at taluk, district, State and all-India levels where sales are also effected. Emphasis is laid on organising live demonstrations at the time of exhibitions. These have proved very effective.
- vi) It has arranged for advertisements through All India Radio, Doordarshan as well as some of the leading newspapers.
- vii) It has approached the Government for inclusion of KVI products in the distribution channels through the public distribution system, and introduced the supply of cottage match.
- viii) It also arranges supplies to Government departments and public undertakings under the system of accepted tenders.
- ix) KVIC is acting as a registering authority for exporters of KVI products. It arranges for export of certain products with the active collaboration of the Export Promotion Council.
- x) It has also finalised labels and packaging materials in respect of some of the commodities.

2. Although the above measures are salutary, there is need to strengthen the entire marketing organisation for khadi and village industries. The need has arisen mainly on account of considerable step-up in production intended during the Sixth Plan period. Unless a responsive marketing strategy and organisation are available to discharge the manifold functions which come under the realm of marketing, the production programme would receive a serious set back. Therefore, to avoid this contingency, action on certain measures has to be taken to formulate a scientific marketing strategy, to build up an organisational infrastructure to implement it vigorously.

3. There should be adequate number of Khadi Gramodyog Bhandars and Emporia at block and district headquarters. Further, at each State headquarters there should be atleast one metropolitan big size emporium supported by a sufficient number of khadi gramodyog bhandars. For each major commodity, there should be a separate market organisation which can ensure procurement of finished products and their supplies to all these bhandars/bhavans and emporia. It should also look after the raw material supply.

4. There should be an organisation vested with adequate financial, executive and administrative powers to ensure procurement of finished products at support price. This organisation should support the weakest of the weak by direct market operations. It should be run on commercial lines.

5. There should be an export house under KVI Export Promotion Council for attending to the problems of exporting KVI products.

6. For ensuring effective supplies to the Government, a separate department, which already exists in KVIC, should be strengthened. At present it mainly looks after supplies of cotton khadi and woollen barrack blankets and livery cloth to DGS & D but it is possible to supply matches, toilet and laundry soap, fibre articles, etc. on a large scale. At present, sales to the Government are hardly 5 per cent of the total sales effected by the KVIC. Attempts should be made to

increase the quantum of Government purchases since Government is perhaps the biggest single purchaser of consumer goods for meeting the requirement of jails, hospitals, railways and its various commercial establishments/departments.

7. It is equally necessary to open up export windows in various embassies, trade centres and commercial establishments both in India and foreign countries.

8. There should be a market research department which can collect market intelligence and advise the producers about the demand for products and study the customer tastes. At present, hardly anything has been done in this direction.

9. Special arrangement should be made for display and sale of KVI products at railway platforms, airports, embassies, important hotels, major seaports, department stores etc. Similarly products of other decentralised industries may be sold through KVI network wherever possible. Equally, other emporia run by handloom, handicrafts, cottage industries, small scale industries, silk board etc. shall open separate counters for the sale of KVI products. The difficulties regarding tax concession may have to be sorted out.

10. In certain cases, authorised dealers may have to be appointed in selected areas. This would help to push the sales of KVI products. Agency sales for KVI should also be encouraged.

11. There should be arrangement for entertaining trade enquiries from various parties. This is necessary to familiarise the KVI products through prospective sales promoters.

12. Salesmanship service in K.G. Bhandars requires to be improved considerably. Suitably trained persons should manage the sales counters. The appearance of the metropolitan bhavans and bhandars will have to be improved to make them look modern and attractive.

13. There is scope for design development, product developmant, repairs, tailoring service, readymades manufacture as per specifications, packaging etc.

14. An integrated approach towards marketing will be necessary. It is necessary to build up an elaborate infrastructure for effective marketing of products produced in decentralised sector. It is necessary to adopt this integrated pattern for almost all village industries where backward and forward linkages are integrated and support services are strengthened. In the past, various problems were tackled in isolation but now time has come to adopt an integrated approach which should *inter-alia* cover supply of raw materials at reasonable prices throughout the year, supply of designs and imparting latest patterns of preferences, undertake upgradation of technology by supplying improved tools, equipment and processes, ensure timely credit which, *inter-alia*, includes provision for consumption needs and finally the marketing with all its dimensions right from whole-sale to retail. These four strands should be interwoven into a single strategy.

15. It is proposed that exports should increase from the present meagre Rs. 1 crore to Rs. 50 crores by 1984-85.

Policy Support

On marketing front there is need for a suitable and definite Government policy.

1. KVI products need to be accorded high priority for purchases by the Government and public sector undertakings. In some cases, only KVI products may be purchased, whereas in other cases KVI units may be given preference over non KVI units.

2. At present, Government purchases of KVI products are of a small order and do not exceed five per cent of the total KVI sales. Most of the sales are in the khadi sector and that too especially in woollen khadi (barrack blankets) and livery cloth. The Government purchase of village industries products is insignificant. It seems necessary for the government sector, including public sector undertakings, to accord purchase, product and price preference for the KVI products.

3. In the case of urban shopping centres developed by Government, accommodation needs to be reserved and provided at concessional rates to be KVI bodies for opening their wholesale and retail outlets. Support also needs to be extended for conducting research studies on marketing.

4. The activities of khadi and village industries are enjoying certain concessions in some measure viz., exemption from sales tax, income tax, excise etc. The following modifications are considered necessary:

- (i) a general exemption for all the products of khadi and village industries needs to be given under the relevant tax laws.
- (ii) the State Governments may be persuaded to pass a general order exempting khadi and village industries products from the imposition of sales tax and octroi by the local bodies.
- (iii) electricity rates in different States should be rationalised and units set up in household and KVI sector should enjoy the benefit of concessional rates available for other big/small industrial units. In the supply of power also, these industries should be treated at a preferential scale in times of shortages and cuts.
- (iv) the present telescopic rates in the freight structure are beneficial to the large scale sector as they encourage transport of raw materials and finished products over long distances. It is necessary to have a different set of freight rates for khadi and village industries products (finished, semi-finished and raw materials).

5. The Government policies need to be formulated by taking into account the needs and claims of the rural artisans. The policies on industrial licensing, allotment of raw-materials, exports, housing, urban development, rural electrification, etc, need to contain elements of protection, reservation and preferential treatment to rural artisans, so as to provide scope for expansion of the KVI sector.

6. To sum up, what is intended is a revamping of State policy. The rural artisan has to emerge as a key figure just as the farmer has emerged over the years.

Marketing Strategy for Khadi Products*

Planning for man is the crux of the new approach. The KVI Sector has a function to perform and this is nothing less than providing adequate employment and income opportunities to the rural poor, so as to enable them to cross the poverty line.

Apart from some of the significant achievements of KVI programme, there have been important gaps in performance and there is a long way to go before the tremendous potential in terms of resource utilisation as well as employment generation is fully utilised.

The area of marked deficiency is the KVIC's performance in marketing internally as well as externally. It has 3,500 market outlets in the form of Khadi Gramodyog Bhandras, and 77500 Production-cum-Sales Centres. Similarly, on the export side, its share is quite negligible. There are also inter-sectoral and inter-regional imbalances in demand and supply levels due to lack of an alert and extensive marketing net-work. There is practically no market research for the study of market trends in forecasting demand and supply. In a large number of cases, the customer has neither the products at nearby purchase point nor choice in selection of varieties. The sales service is also generally not satisfactory. The marketing side of all the programmes has received less attention than it deserves.

But, today in the context of the broad objectives of the Sixth Five Year Plan and particularly in the context of objectives of this national seminar on marketing of Khadi and Village Industries Products, it would be significant to examine and have clear understanding as to what should be the overall marketing strategy for KVI products in the present socio-economic environment.

In the past also there had been some rethinking, critical appraisals and studies in the field of marketing policies, programmes and achievements of KVIC. For our convenience, it would be worthwhile to discuss marketing strategy first for Khadi and then for V. I. products.

* Prepared by: Khadi & Village Industries Commission,
3, Irla Road, Vile Parle, Bombay 400 056

1. Khadi Marketing

Khadi, which was once regarded as an instrument of generating self-reliance and spirit of independence is now accepted as an instrument of generating rural development through providing maximum rural employment while catering to the needs of a widely dispersed clientele.

I. The Ashok Mehta Committee in its report of 1968, has brought out that the Khadi Programme should be worked out in terms of three broad objectives and the relative emphasis is to be placed on each of them, viz.

- i) The economic objective of producing a saleable article.
- ii) the social objective of providing employment, and
- iii) the wider objective of creating self-reliance amongst the people and building up a strong rural community spirit.

II. The study of Khadi Marketing, objectives, strategy and operational policies was conducted by Sarvashri Rakesh Khurana, M.N. Vora and Nikhilesh Dholakia of Indian Institute of Management, Ahmedabad in April, 1976.

The report has dealt in detail about the important issues of Khadi Marketing.

The primary objective of Khadi movement is the providing of employment. This is the underlying rationale of Khadi movement and is only on this basis that khadi can justify its existence and progress. The objective of employment, however, needs to be justified with the goal of making that employment viable for the Khadi artisan. The objective of viable employment can be achieved by raising the earnings of Khadi artisans to a level where it becomes attractive enough for them to remain in the Khadi Sector instead of seeking alternative employment. This can be done in two ways. One way to make the employment in khadi economically viable is to raise the productivity of the Khadi industry. The second way is to produce khadi cloth and garments which have a high market value.

The Table-I traces the strategic implications flowing from the overall objective of viable employment. Increase in productivity can be achieved by upgrading the technology.

By multiplying the skills of khadi spinners and weavers, it would also be possible to gradually shift to higher value production and thereby increase the wages in the Khadi sector. The upgrading of technology would raise the productivity per man hour and again raise the level of wages. The Khadi Commission has directed its research and development efforts in this direction. The productivity gains, thus achieved, cannot be translated into higher earnings *unless the productivity and the efficiency of the distribution system can also be raised.* This is one of the major reasons why the khadi sector has to critically evaluate its marketing efforts and evolve more efficient marketing practices.

The second major strategy for increasing the level of earnings is by shifting the production of Khadi towards higher value items. This would imply that the Khadi production should be geared atleast partially to the needs of the fashionable and sophisticated segments of the market. It is only by effecting marketing research and communication of consumer preferences to khadi producers can the khadi industry raise the overall value of production.

The question which needs to be asked in defining the overall strategy of the Khadi movement is what products does it want to sell to what types of markets. The products of Khadi fall into two broad categories:

1. Khadi sold as cloth, and
2. Readymade garments made out of Khadi.

The two types of products are not exclusive of one another because the ultimate function of cloth is also the conversion to some type of garment. However, the selling requirements of the two are quite different and therefore, it is necessary to think about the relative importance which readymades will have in relation to cloth in the years to come. There appear to be four major market segments (types of customers) in the Khadi Sector.

1. *The loyal segment:*
The customers in this segment are regular khadi wearers and buy khadi due to ideological motives.
2. *The fashion segment:*
This consists of fashion conscious customers who buy khadi due to its texture and new designs.
3. *The value seeking segment:*
Large number of white collar and business people buy khadi items because they get good value for their money and purchase khadi items on the basis of price and quality benefits.
4. *The needy segment:*
Poor persons or those who buy khadi items solely because of their price competitiveness.

The Table-2 shows the possible product market combinations for the khadi industry and also the major source of competition in each of these product - market segments.

It is clear that except for the loyal segment - cloth and garment - there is no segment of the market where khadi is free from competition from either the organised or the unorganised sector of the textile industry. It is, therefore, necessary to decide the segments in which khadi could grow and whether the growth should come from existing products or from new products and whether the growth can be expected from the existing customers or by creating new customers. In making all these decisions a careful examination would have to be made.

Strategic issues in marketing of Khadi

The objectives of marketing strategy for Khadi should flow from the overall objectives and strategy of the Khadi movement. It has been pointed out that the over-riding objective of khadi should be the creation of viable employment for the producers of Khadi.

One of the key features of khadi marketing is the system of cost-based pricing. The selling price is computed by adding the cost of production and processing at various stages and by allowing pre-determined margins. Several strategic issues

arise regarding Khadi pricing. For example, should cost based pricing be maintained if the earnings of Khadi producers are to be brought up to viable levels? Should margins in Khadi be uniform for all varieties, especially when the market segments to which the different varieties might be going are quite different? The opposite extreme of cost-based pricing would be a policy of completely market-oriented pricing. Is such a policy consistent with the broad objectives and ideas of the Khadi Movement? What would be happening to the price image of Khadi if the prices are left completely to the vagaries of the market? Is it possible to evolve a policy of flexible margins which is somewhere in between the present cost-based pricing policy and the market oriented pricing?

Another important feature characterising the marketing of khadi is the use of exclusive outlets. This ties in with the objective of keeping the retail price constant. It is necessary to examine whether such exclusive distribution policy is in line with the objectives of Khadi. Should commercial channels be used for marketing Khadi? Should the practice of using agencies for Khadi sales be given more importance in the future? Should the present Khadi outlets carry products other than village industry and handicrafts in order to boost the traffic and to get additional contribution towards the store overheads? What policies should be adopted in designing the location, size and characteristics of new khadi outlets? At the level of the Khadi Commission, the issues of inter-institutional transfer of Khadi stocks also become important. What arrangements can the Commission make to promote the efficient inter-institutional transactions of Khadi products?

So far the promotion of Khadi has been mainly confined to the Gandhi Jayanti period. Special Rebates (Price discounts) are offered in all Bhandars during this period. If the sales of Khadi are to be increased substantially above the current levels, it will be necessary to do some fundamental thinking regarding the promotional strategy for Khadi. A basic question that has to be raised is whether Khadi should be promoted as a commercial product or on an ideological basis. If the latter, then what kind of ideals should be associated with Khadi and what methods of promotion should be employed? Will it be sufficient to use public relations and publicity methods or will it be necessary to go in for paid media advertising? If on the other

hand, Khadi is to be promoted as a commercial product competitive with textiles in general, then it will be necessary to think about what product positions and appeals should be used in Khadi advertising. What media should be employed in promoting Khadi? Should promotion be institutional (focussing on Khadi enterprise as a whole) or should it be product based? In thinking about Khadi promotion, serious consideration would have to be given to the issue of generating funds for khadi promotion.

The marketing organisation of Khadi and the marketing information system would have to be examined to determine the areas which need strengthening and improvement. With the overall objective of increasing the sales and earning from Khadi, following questions would have to be asked: What information should be obtained from the market? With what frequency? What should be the sources of information? What type of organisation and reporting systems would have to be developed at the Khadi Commission Head Office level and at the level of the State Offices of KVIC? What information should the Commission provide to the various Bhandars and Institutions? What type of Marketing assistance should the Commission provide to the various Institutions? Should the Commission undertake market research to keep track of the developments in the Khadi market? What should be the criteria for selecting market research projects and how should the information generated be disseminated?

The overall marketing strategy for Khadi would have to be developed on the basis of analysing the various issues raised above.

Marketing Environment for Khadi

Khadi at present accounts for nearly 1% of total textile market. In fact in many product categories Khadi is almost unrepresented. We feel that the small market share of Khadi rather than being a handicap presents growth opportunities in many product categories. Several khadi institutions by their own efforts have been quite successful in attracting customers with varying buying motivations. We strongly feel that the share of Khadi in the total textile market can be substantially increased by means of a well coordinated marketing programme at the KVIC level.

Role of KVIC in Khadi Marketing

At present there exists a considerable flow of information between KVIC and various institutions producing and selling Khadi items. However, most of this information is in the nature of an accounting by the institutions for the use that they have made of KVIC's financial and technical support. In this sense, the information tends to be statistically interesting but not diagnostically useful. Also, most of the information flow is from the institutions to the Commission as far as marketing of Khadi is concerned. KVIC can play a much more positive role in supporting and developing the marketing activities of the various Khadi institutions. KVIC can offer support in terms of scanning the operating environment for textiles in general and khadi in particular. It can provide useful information about changing consumer preferences. It can identify trends in Khadi readymades and disseminate such information. In addition to such informational support, KVIC can also provide certain consultative and facilitating services which could promote more efficient marketing of Khadi products.

Environmental Scanning

By virtue of its position as the overseeing body of all the Khadi institutions, KVIC is in the most advantageous position of scanning the environment for Khadi and interpret this for the institutions. For example, the Commission can regularly obtain indicators about the movements in textile consumer preference and sales and production of different varieties of textiles. It can disseminate such information in a form meaningful to the officials of the Khadi producing and selling institutions. Most of such information is already collected on a continuing basis by the Textile Committee. To that extent, the Commission's job is simplified in that it has only to relate such information to the market outlook for Khadi.

In addition to scanning the textile markets, KVIC can also act as central agency for collecting information about khadi markets and disseminating the same to various institutions. This would entail the setting up of a system of feedback from selected institutions. For example, Commission can select certain "Lead" Bhavans which are faster in responding to environmental trends and pressures. Information relating

to fast moving items, changes in consumer preference, seasonality of sales, etc. could be obtained from these Lead Bhavans and fed to the institutions all over India. This would aid various institutions and Bhandars in making necessary changes in their product offerings, promotional efforts, and selling practices. Such decisions are being made any way and the provision of market information from a centralised agency like KVIC would speed up the decision making processes and reduce the risk inherent in many of these decisions.

The collection and dissemination of market information would call for a somewhat different system of reporting than currently prevalent in Khadi units. At present information fed by institutions to the Commission is an accurate statistical reporting of their operating performance. Hence, it is necessary for the sending institution to check and recheck such information before forwarding it to the Commission. This necessarily takes a considerable amount of time. In the case of market information, such delays would undermine the whole purpose of collecting the information. Also, the market information would generally have to be in the nature of impressions, judgments and estimates by managers heading the various Bhandars and institutions. Therefore, the Commission would have to create a confidence that the information is not being sought for purposes of accountability but for the purpose of diagnosing market trends and disseminating such information to other Bhandars and institutions.

Marketing Support

One of the most acutely felt needs of Khadi Bhandars and institutions is regarding a central clearing house agency which could be used for the purposes of exchanging information about the availability of stocks in various parts of the country. At present Bharatiya Khadi Gramodyog Sangh (BKGS) is trying to serve the function of such clearing house agency. However, its role is very limited and it has been able to set up only one central godown in Panipat. The KVIC should either itself undertake or encourage an institution like BKGS to undertake the function of setting up a much more effective and comprehensive clearing house. Such a clearing house could not only provide latest information about stock availability and requirements of institutions all over India, but

it can also facilitate in the physical transfer of stocks. More importantly, such central agency could become the nerve centre in the exchange of information regarding new designs and trends in Khadi readymade garments.

It is clear from our examination of the Khadi sales and marketing activities in various parts of the country that certain institutions are very successful in modernising their marketing methods and improving their sales. We have also observed that the success of these institutions more often than not depends on the expertise of certain key individuals. The entire Khadi Industry could benefit if the expertise available in various leading institutions could be transferable. KVIC can play a role here by identifying experts in various marketing activities. For example, the Commission could set up panels of experts in areas like product design, purchasing operations, merchandising, sales promotion and marketing research. The names of the experts nominated to these panels could be made available to the institutions all over India and the Commission could facilitate in the transfer of marketing know-how from the more successful institutions to the relatively less successful institutions.

Contd.

Table-I

**Strategic Implications of Overall Objectives
of Khadi Movement**

To provide employment

**To provide viable employment
through remunerative work.**

**To increase production
in Khadi Industry.**

**To increase productivity
in the Khadi Industry.**

**To upgrade skills
of artisans.**

**To raise the value of
production.**

**Training speciali-
sation, imparting
multiplate skills.**

**Add value through
processing.
Better designs,
Market oriented
product mix, Shift
emphasis to ready-
mades.**

**Improve price
realisation.
Flexible pricing,
advertising
& Promotion,
Efficient distri-
bution, Inventory
control.**

**To upgrade technology in
Khadi Industry.**

**New Model Charkhas and
improved looms.**

Table-2

**Product-Market Scope for Khadi
Market Segment**

CLOTH	No significant competition	Stiff competition from Mills, Handlooms	Stiff competition from Mills, Handlooms, Powerlooms	Competition from controlled cloth and Powerlooms
PRO-DUCT	****	**	*	*
READY MADES	No significant competition	Competition from garment Manufacturers, Handlooms	Some competition from garment Manufacturers, Handlooms	Some competition from Power looms & Unorganised Sector
	****	***	***	***

The star ratings indicate the scope for Khadi in each product-market combination :

- **** Excellent
- *** Very Good
- ** Good
- * Fair

Marketing Strategy for Village Industries Products*

Having discussed the strategy about Khadi Marketing, we will broadly state the issues which have been thrown up during the field study of three districts—Panipat (Haryana), Ahmedabad (Gujarat) and Sitamarhi (Bihar). The first two districts had relatively better facilities for production and marketing and are closer to metropolitan trading centres like Delhi and Ahmedabad, whereas Sitamarhi is located in the interior backward region, with no big industry or trade.

The field surveys were taken up by the Industrial Development Services, New Delhi for KVIC to suggest improvement and expansion in the marketing of KVI products.

The field survey revealed that although there is wide variation in the three districts in the economic standards of people, infrastructure facilities, the problems encountered by units manufacturing KVI products are by and large similar. The marketing set-up is slightly better in Ahmedabad and Panipat districts compared to Sitamarhi. But in most of the other respects the situation seems to be similar in all the three districts. The officials contacted during the field survey in these three districts stated that the basic difficulties in improving the quality and quantity of the production and providing increased employment was inadequate availability of raw materials at reasonable prices, their indifferent quality, inadequacy of working capital, lack of proper training facilities and complete lack of contact between the marketing organisations in major selling areas. This has resulted in goods being produced which are not required by the market and at the same time marketing outlets being short of supplies of goods required by the consumers.

* Prepared by Khadi & Village Industries Commission, 3, Irla Road, Vile Parle, Bombay 400 056.

Institutional

From the discussions held with various officials and workers at all levels, it was found that the institutions - e.g. the Sanghs, Boards, etc. were not held in much esteem. The impression got was that they did everything but help the cause of the KVI. The reasons for this were:

- inability to supply the required quantity of raw materials on time;
- inability to provide loans - both short-term and long-term;
- no procurement policy from the artisans and no uniform pricing either;
- no system of feedback information;
- no identification of potential demand;
- no efforts towards product development, packaging and designing; and
- no efforts to undertake training.

The review of the supply situation showed that there is considerable production capacity especially in village industries which is not being fully utilised. Artisans are under-employed and their incomes are low. The study of the working of Bhavans has shown that the demand for village industries products is not being fully met.

A glance at the organisations linking the village industries producers with the market points out that the major bottle-neck is the lack of "organisation" in the field. The agencies, if they exist, are primarily concerned with production and supply of khadi. Only marginally do they deal with Village Industries products. Hence, it is very essential to remove this organisational deficiency in order to establish a live link between the market and the small isolated village industry producers.

The specific steps can be outlined as follows :

Organisation

It is necessary to build an organisation which can reach out to the villages. Given the large area, large number of villages and village artisans, the organisation should be conceived of as operating at a level not larger than a district. Its main function would be to stimulate production, expand supply and deepen the local market, i.e., promoting sales locally within its area of operation. It should be adequately equipped to perform these tasks. The size and shape of each district level Village Industries Supply Development Centre should be determined with reference to its challenges. All we can indicate is the core of such an organisation.

Identification of Districts

It is proposed that to start with the programme may be launched in selected 25 to 30 districts including the three districts studied. The other districts should be selected on the basis of :

- (a) large number of artisans in those village industries for which strong demand has been observed;
- (b) existence of a reasonably reliable local organisation;
and
- (c) regional dispersal.

Identification of Products

In the selected districts, the main village industries products should be identified, and at first these products taken up for promotion where the demand of the Bhavans themselves is expanding. As of today, these are :

- Edible oils
- Gur and Khandsari
- Soaps and non-edible oils
- Honey

Proceedings of National Seminar on Marketing of KVI Products

- Matches
- Handmade paper
- Agarbatties
- Preserved fruits

In the selected districts a census be carried out of the producers and artisans in each of the above identified products, block-wise and village-wise. A profile of producers should be prepared to identify those who are in a position to produce suitable quality and quantity for sale. Supporting services and inputs required should be identified in respect of each producers. An index of producers by product and village be also maintained at the district centre.

Based on the producer profile an ABC analysis may be done of producers to identify :

- (a) those who can produce the requisite quality and quantity and do not require either additional equipment or upgrading of skill or supervision;
- (b) those who require only some balancing equipment or marginal upgrading of skill or nominal supervision; and
- (c) those who require any or all of these on a substantial basis.

Procurement

Based on the ABC analysis of individual producers a production plan should be prepared product-wise, estimating the likely availability of production from the A type of producers to start with. Their requirement of inputs should be worked out and feasibility of procuring them at better than the existing terms should be studied.

This plan should also perceive the logistical requirements of picking up supply from the isolated villages/producers and its transport to procurement depots. The district organisation may have to setup procurement centres or a mobile procurement organisation like Amul's for collection of milk from

remote villages. To facilitate this activity, the village artisans and producers should be grouped together in local associations or cooperatives specially where there is a concentration of such artisans and where group action is feasible.

The nature of the procurement organisation linking the producers with the district procurement centre is to be conceived as a two-way traffic -

- i) delivery of inputs; and
- ii) collection of finished products.

The nature of the procurement organisation and the number of its field stations or the extent of reliance on mobile units as well as the number of warehouses and stocking depots will have to be worked out specifically for each area.

Development of Supplies

B and C Producers: It will be necessary to set up Spearhead Teams on the Amul pattern which would systematically upgrade category B and C producers.

The composition of the Spearhead Teams in terms of size, the nature of the technical and organisational expertise and experience of the personnel will vary according to the requirements of producers falling in category B and C in different products in an area. All that can be suggested here is that, at first, category B should be helped to move on to A level as rapidly as possible. This will provide some field insight and experience to the Spearhead Teams to cope with the more challenging task of raising the level of category C producers.

Marketing

While it has been ascertained that generally the demand for village industries products is higher than the supply, actual selection of products and the quantum of production to be planned in a given period must be based on firm and prior contact with one or a group of the Bhavans and Bhandars. It is, therefore, necessary that the district procurement organisation must have a marketing cell for market development and market information. Its task will be to keep a close liaison

with the market with regard to saleability of products, quality, prices, packing and other requirements, nature of competition, if any, and to feed continuously at all levels of the procurement organisation, including individual producers themselves.

Deepening of Local Consumption

It is our view that while stimulating production of local village industries the emphasis should be on meeting local demand as far as possible. Factory made products are invading the rural markets to the detriment of rural artisans and village industries. While to seek immediate relief one may rely on the market power of the Bhandars and Bhavans in big cities, simultaneous effort must be made to deepen the local market. For this purpose, the following steps are recommended;

i) A study should be made of village 'haats' and bazars held in different parts of the district. Similarly a study should be made of the chain of shops and markets in the towns of the district. The object of the studies is to identify what kind of products are coming into the district from outside which are having good sales and specifically those which compete with local village industries products. What categories of population buy them, their price, quality, etc. The results of the study should be analysed to explore the possibility of improving the competitive strength of the local village industries products for greater absorption in the local market.

ii) At present the products of Khadi and Village Industries produced in a particular area are not sold in that area itself in any conscious manner. Any visit to a local Bhandar shows that it is stacked with goods from all over India and if someone wants to buy goods produced locally, these are difficult to find or identify.

It is, therefore, necessary to develop a net-work of small sales depots for sale of local goods. At the same time fullest possible use of the weekly 'haats' and fairs should be made for sale of village industries products. Arrangements should also be made for regular and active participation in these 'haats' and 'bazars' for sale of local goods.

iii) It is also important to create local awareness and pride in giving preference to local products. All the local artisans and producers of village industries themselves should be first made conscious of patronising their own mutual products. Similarly other residents of the area should be made aware that to the extent they patronise local products, their income circulates within the area. Essentially, some kind of Swadeshi sentiment must be generated to build up local market and local support.

The role of KVIC

It is to be recognised that these steps outlined here are essentially of promotional nature to foster the growth of village industries and to help them grow to a point where their products start flowing into the commercial channels. The effort and expenditure involved in the promotional phase on the surveys of the type indicated, the establishment of the spearhead teams and the procurement and servicing organisation for initial period of 3-5 years (depending on the relative backwardness of the area) should be provided by the KVIC.

In order that after a formative period the activity does become independent of KVIC subsidy and support and requires its own strength, it is necessary that the programme is not undertaken as a departmental activity by the KVIC or the KVI Boards.

The critical task, therefore, is to choose one of the non-government institutions in the districts selected to act as an agent of KVIC for promotional work and which is sufficiently interested in this kind of activity and has both motivation and competence to ensure success of this programme.

Khadi Gramodyog Bhandar — A Case Study *

A case study is undertaken to study the marketing problems of khadi and village industries products. Khadi Gramodyog Bhandar, a retail outlet of Bhagyanagar Khadi Samithi located at Sultan Bazar in Hyderabad is studied.

Origin

Bhagyanagar Khadi Samithi was registered in 1968 and certified by Khadi and Village Industries Commission in 1969. Since its inception, the activities both in production and sales have expanded.

To increase production of khadi, the Samithi has introduced New Model All Metal Charkhas (NMC) in 38 villages numbering 1250.

There are eight pre-processing centres in the district. In order to provide proper servicing and maintenance of the charkhas, the samithi is having a servicing unit under blacksmithy and carpentry scheme and a NMC spare parts godown. A number of spare parts are manufactured here.

The Samithi is using Scuther, Mill cards and drawing machines in the pre-processing operations upto a semifinial carded tape to make spinning easy and to facilitate more wages to the spinners.

The Samithi maintains a bleaching and dyeing unit and also readymade garments unit.

The Samithi runs six match units. Khadi and Village Industries Commission has given sanction to start washing and toilet soap units. Two oil ghani units were started with karad and til oil. The employees of the Samithi have formed into a cooperative society and started a small unit of Grama Lakshmi where pure chillies, turmeric and other spices are powdered and processed.

*Paper prepared by Sri AVK Sarma, Associate Faculty Member, SIET Institute, Hyderabad-500 045

The achievements of the Samiti during the last three years is shown in Annexure-I. It is seen that production and sales are increasing over the years. It is observed that wages paid to artisans have formed 38% and 42% of production value in the years 1978-79 and 1979-80 respectively. But, wages paid to each artisan comes to Rs.782/- and Rs.850/- for the same period.

The Samithi was started with four Khadi Gramodyog Bhandars in the year 1969. Today, the Samithi has 14 Bhandars to market Khadi and Village Industries products.

Khadi Gramodyog Bhandar, Sultan Bazar

The present study pertains to one of the Khadi Gramodyog Bhandars located at Sultan Bazar, Hyderabad.

The Bhandar Stores all varieties of khadi like hand spun, woollen, silk and readymade garments, village industries products such as soaps, oil, honey, leather footwear and handicraft products are also available in the Bhandar.

The sales of various products for the year 1979-80 and 1980-81 is shown in Annexure-II.

It can be seen that cotton khadi, readymade garments, general handicrafts and spices are the fast moving items. Among these items cotton khadi accounts for about 37.8% and 37.4% of total sales during the reference period. Sales to government departments accounts to about 10% in 1979-80 and 12% in 1980-81 of the total sales. The sales of soaps have come down from Rs.0.14 lakhs in 1979-80 to Rs.0.06 lakhs in 1980-81. A discussion regarding the low sales value of this product indicated that though it is in a better position with respect to weight and price when compared to other sectors' product, the salient features are not given wide publicity.

Product Procurement

As the Bhandar is a retail outlet of Bhagyanagar Khadi Samithi, the samithi supplies products from its production centres to the Bhandar for sale.

Proceedings of National Seminar on Marketing of KVI Products

The Bhandar gets khadi products supplied from central Khadi Vastragar, the Central godown of the Samithi for khadi products. The Central Khadi Vastragar stores khadi products, produced not only by Bhagyanagar khadi samithi but also by other certified institutions in the country. It acts as a clearing house for khadi items.

Village industries products such as soap, oil and spices powders which are produced in the production centres of the samithi are obtained from the concerned production centres.

Honey is supplied to the Bhandar by production centres in Tamilnadu and cooperative societies in Karnataka.

Handicraft products are obtained both from individual artisans and suppliers.

Price fixation

The prices for different items are fixed by the Samithi. The Samithi supplies cotton to artisans and pays them wages. The price of the yarn is fixed in the following way.

Count	Cotton variety	Cost of cotton	Wastage 15%
8	Adoni Jaidhar	Rs. 13.50 per kg	Rs. 2.03
Total cost of cotton	Wages for carding	Artisan	Welfare fund
Rs. 15.53	Rs. 1.50/per kg	(5%)	Rs. 0.08
Cost of slivers	Spinning wages	Artisan	Welfare fund
Rs. 17.11	Rs. 4.00/per kg	(5%)	Rs. 0.20
Total cost of yarn	Fixed price (rounded)		
Rs. 21.31	Rs. 21.30		

The Samithi adds 20% over the production value.

The pricing from yarn to finished cloth of 630 dents variety is shown below :

Length	Variety	Yarn count	Hanks	Weight of yarn
10 Mtrs.	630 Dents	26	27.720	1.066 kgs.

Proceedings of National Seminar on Marketing of KVI Products

Rate per kg	Value of yarn	Dyeing	Weaving charges
Rs. 32.40	Rs. 34.54	Nil	Rs. 10.70
Artisan Welfare fund (5%)	Total cost	Margin (20%)	Total
Rs. 0.53	Rs. 45.77	Rs. 9.15	Rs. 54.92
Processing	Total	Insurance (0.5%)	Total value
Rs. 4.10	Rs. 59.02	Rs. 0.30	Rs. 59.32
Rate per Meter	Fixed price (rounded)		
Rs. 5.93	Rs. 5.95		

For handicraft products purchased from artisans or suppliers, the Bhandar Manager fixes the purchasing price. The sale price is fixed by adding 20% of the purchase price.

It is observed that this margin of 20% is utilised in meeting the establishment expenses of both Samithi and Bhandar.

Sales Promotion activities

The Bhandar is not taking up any sales promotion activities. The khadi and village industries commission looks after publicity aspects. The officials of Bhandar felt that, introduction of publicity measures like advertisements in newspapers and radio, setting up of hoarders will help in consumer awareness of khadi and village industries products. They also suggested intensive sales drive resorting to door to door canvassing.

It is also felt that the recent introduction of marking of prices on products and common sign boards for Khadi Gramodyog Bhandars in the country will improve the image of khadi sector.

The only sales promotion activity undertaken by the Bhandar is giving rebates to customers on various khadi products for a period of ninety days in a year. Substantial amount of sales are effected during the period in which rebate is given.

It is felt that giving incentives like sales commission to Salesmen of the Bhandar will make them more effective. It is suggested that the products should be sold through general stores to increase the market of khadi and village industries products.

Consumer Needs

The Bhandar is meeting consumer needs in designs by accepting specific orders. The orders are passed on to production centres either in Hyderabad or elsewhere in the country. New designs are being introduced. But, it is agreed that khadi cloth cannot be compared with cloth from other sectors like handloom or mill. The comparative disadvantages in terms of quality and price of khadi is not making it a competitive product.

One of the special features of this Bhandar is availability of gift packing service.

Consumer Reaction

A random survey of customers of Khadi Bhandar indicated that they are mostly traditional khadi users. They feel it as a way of life.

Some of the customers are attracted by the designs. The buyers of consumer items opined that khadi products are pure in unadulterated form and of good quality. The consumers felt that there should be more retail outlets in the city.

Summary

The study of Khadi Gramodyog Bhandar revealed that marketing of khadi and village industries products excepting soap is not much of a problem.

It is difficult to increase the production of various products due to the low wage rates. It is felt that more financial assistance is required.

The officials of the Bhandar have suggested that giving more publicity through different media and effecting sales through private and public distribution channels will increase the market of khadi and village industries products.

**Bhagyanagar Khadi Samithi:
Progress during 1978-79 to 1980-81**

(Value Rs: in lakhs)

Items	1978-79	1979-80	1980-81
1. Khadi production	30.93	46.42	58.60
2. Retail Sales			
A khadi	24.10	25.80	29.92
B silk	2.58	2.56	3.29
C woollen	1.14	1.22	0.92
D gramodyog	12.18	11.83	14.08
E total	40.00	41.41	48.21
3. Whole sale			
A khadi	31.07	47.57	56.49
B silk	0.32	0.26	0.19
C woollen	0.12	0.08	0.01
D total	31.51	47.91	56.69
4. Match production	2.18	2.60	0.96
5. No. of artisans	15.03	23.08	NA
6. Wages paid to artisans	11.75	19.63	NA
7. Match sales	2.22	2.18	NA

Sales of Bhagyanagar Khadi Bhandar

(Value: Rs. in lakhs)

Items	Sales in the year	
	1979-80	1980-81
1. Cotton khadi	10.44	12.03
2. Readymade garments	2.71	2.94
3. Silk	1.60	1.86
4. Raw silk	0.24	0.54
5. Silk readymade garments	0.07	0.11
6. Woollen kambal	0.02	0.34
7. Woollen (rebate)	0.37	0.11
8. Woollen readymade garments	0.15	0.30
9. Silver handicrafts	0.73	0.42
10. Soaps	0.14	0.06
11. General handicrafts	3.92	4.34
12. Leather and sandal wood	1.25	1.12
13. Ivory goods	1.27	1.39
14. Spices powders	1.82	3.11
15. Sales to government	2.82	3.57
Total	27.58	32.18

Issues for discussion

(1) In order to increase the production of khadi, more artisans are to be brought under khadi sector. The present earnings of spinners and weavers are very low. Can wages of these artisans be increased so as to make this occupation attractive ?

(2) There is a general feeling that adequate publicity is not given to the products of khadi and village industries sectors. What measures should be taken to give wider publicity, emphasising the salient features of KVI products ?

(3) Should items which have a marginal price difference over those produced in other sectors be identified and subjected to massive publicity and design improvement ? Will this strategy make a perceptible dent in the market ?

(4) Can regional publicity on special products of the region form an important activity of Khadi Gramodyog Bhandars ? In such cases what should be the role of Bhandars ?

(5) The restriction of allowing khadi products to be sold only through certified institutions is posing a problem in creating enough market outlets. Will it not be better to sell khadi products through (a) general streams and (b) channels of public distribution system of essential commodities rather than open more Bhandars ? The pros and cons of cost of opening more Bhandars has to be weighed against the Commission to be given to retailers.

(6) Can government purchase programme be improved to:

- a. inclusion of greater number of items made in village industries sector ?
- b. reserving some items for exclusive purchase from the village industries sector ?

Marketing of KVI Products *

Though significant efforts are being made by the Government to promote the village industries by providing financial assistance and requisite production facilities to village artisans, the results are not encouraging. This could be attributed to the very little efforts towards providing sound marketing infrastructure which is more important for the success of the village industries.

Marketing occupies a very important place among various aspects contributing towards a successful venture of village industries. This is more so because of the heterogenous nature of the products which need a marketing approach that is very different from the conventional marketing. The marketing strategy has to be different depending on the nature of the product and the type of consumer. The success of the products of the village industries in the market place depends on how effectively the *various marketing skills* are used in the number of complex activities beginning with the assessment of the need of the consumer, organising the production to meet the demand, pricing, advertising and publicity, culminating in the sale of the product at a profit.

Current Problems

Marketing of village industry products become complex because of the poor socio-economic background of the village artisan coupled with the peculiar nature of the products which are labour intensive and as such have no advantage of scale of production. In case of most of the products, the village artisan has to market his own goods. His perspective is limited and as such market is restricted to the village community, which does not have much purchasing power.

Majority of the products are found to be obsolete and not compatible with consumer tastes in the future because of influx of technology and the changing nature of customer tastes and demand pattern.

* Abstract from the report "Village Industry Profile & Organisation Study" by ASCI: 1974-75. Compiled by GUK Rao, SIET Institute, Hyderabad.

Majority of products have to compete with well equipped and organised factory sector. The factory sector has resources to market its products throughout the country with its capacity to mobilise a marketing apparatus which is in touch with the daily trends in the market. It introduces new designs, practices rigorous quality control and caters to the changing needs of the customers. This inherent strength of the factory sector has driven away the village industry far behind as the traditional production could not satisfy the dynamic market of today.

Due to lack of sufficient infrastructural facilities the village artisan has to spend lot of his productive time in procurement of raw material and marketing of his products. Because of this, his per capita productivity is very low.

Village industries are at a great disadvantage particularly in regard to those market segments which are brand conscious. The products like handmade paper etc though having fairly good demand are unable to sell as they are not well advertised or well known.

Most of the village industry cooperatives have not retailing outlets of their own and had to do most of their selling at the village itself where bargaining prevailed and it was not profitable to sell.

Poor transportation facilities coupled with a low volume of production hampered the industry.

Because of non-availability of distribution channels and storage facilities at nearby places, the products are sold to the middlemen, who in turn sell the same in the markets in the towns and cities.

Marketing Strategy

In order to make the products of village industry a success in the market place, village sector has to be geared to the challenging needs of the market. To be able to carry out this effectively, there is need to plan an appropriate marketing strategy. The strategy consisting of manipulation of various elements in the marketing-mix viz., product, price, place and promotion would be different for different product groups.

Creation of new marketing organisation or activating the sponsored or existing ones assisted by the State Governments is necessary to provide assistance to the village artisans for marketing their products. For planning a strategy, the most important factor is the determination of demand and the changing pattern of customer choices. The artisans must be provided with necessary assistance to innovate and create attractive products with new designs, maintain good quality standards and have better utility and increased production.

Improved packaging of products to reduce its costs and freight charges and a proper evaluation of pricing structure with a view to reducing the cost of products must be provided.

It is necessary to provide a system for effective pricing to maximise appropriation of gains to the village artisans based on day-to-day supply and demand factors in the market.

Whenever there is a good potential for sale, market depots to be used as purchasing and selling agencies for groups of production centres can be established. In order to help the artisan in distribution of his product, there is a need to establish retail centres on a selective basis for goods saleable in urban markets. Advertising and publicity campaigns will have to be specially designed to suit target audience. So there is need to set up a common organisation at the State level which can organise publicity for quality goods produced, initiate measures for evolving brand names and symbols of quality like "Agmark", collect market information on consumer tastes, fashions, etc., and disseminate it to village units and their group organisation.

There is a tremendous potential for enlarging the share of village industry, which is almost insignificant in the country's export earnings. Necessary measures must be taken to identify items for export, organise production to the required qualitative specifications and accelerate the drive for exports by organising well-knit export marketing groups for the export of village industry products.

Strategy for Selected Products

1. *Ghani Oil*

Ghani oil has an edge over the mill sector inasmuch as it still continues to enjoy a reputation as an unadulterated product with better taste, flavour and nutritional value. These product characteristics may be used as unique selling proposition in the promotion of this product for higher market penetration and consumer acceptance. Market intelligence must be provided to help the artisans to procure raw material.

2. *Fibre*

The pattern of demand for fibre products is undergoing change both in village and urban markets. KVIC can play a significant role in this growth by providing artisans:

- Marketing Research facilities in end-use of products so that the new markets could be penetrated and new products developed;
- Better selling techniques;
- Improved packaging of products to reduce costs;
- Assistance in marketing the products with the help of the wide net work of departmental stores or through their agencies, to be used as distribution outlets for the domestic market; and
- There is a vast export market for fibre products. KVIC and State Boards should adopt a marketing strategy by modifying the production pattern of this industry to cater to the needs of the export market and by providing better advertisement of the products for export promotion and export incentives to artisans.

3. *Bee-keeping*

Honey presents various advantages as a food as well as a medicine. At this point of time honey is considered as a luxury item and the privilege of the upper classes. Therefore, a well thought out and systematically planned marketing strategy is needed. The various elements of marketing strategy viz., price, sales promotion, and distribution assume immense importance.

Marketing of honey and its by-products should be undertaken by the Commission wherever the artisan is not able to do it himself. For this purpose:

- Evolve a suitable brand name;
- Undertake promotional campaigns through mass media for creating awareness and additional demand from the middle class households;
- Evolve a distribution policy by which a large number of retail outlets stock this product. For this purpose the Commission can initially take the help of the distribution network of some of the well established companies marketing consumer products; and
- For tapping the export markets where there is severe competition from European countries, it is necessary to give more emphasis on promotion based on product differentiation.

4. *Village Pottery*

The pottery products can be classified into three major groups:

A. Common Clay Pottery (Pots, Pans, etc.)

There is a gradual disappearance of these products due to declining demand. There are no special marketing efforts needed.

B. Structural Common Clay (Bricks, Pipes, Tiles etc.)

Structural Common clay products are not individual in character and, therefore, heavily depend on middlemen for market linkages. The bulk market for these products are Government institutions involved in construction activities (Housing Boards for housing schemes, etc.). The following marketing facilities need to be created to gain a sizeable share of the market:

- The Khadi and Village Industries Commission should secure orders for their artisans from such institutions by having linkages with these organisations;

- Provide distribution facilities by which the customer can be supplied the products in time; and
- Provide transport facilities by which the customer can be supplied the products in time.

C. Glazed White ware (Glazed Tiles, Toys, Statues etc.)

Glazed whiteware pottery market has so far been dominated by factory sector. In order to enable village industries claim a major share of future of demand of this type of pottery, it is necessary to:

- Provide proper design and finishing which is the strength of the product in the market place. This product needs careful study of every particular segment of market in respect of their desires and wants;
- Adopt rigorous quality control; and
- Create consumer awareness by display of these products in Khadi Bhandars, Departmental Stores, etc.

5. Village Leather

The artisans of the village leather industry are in an environment with competition from urban oriented goods, price competition and increasing costs. The strategy to ensure greater share of the market should be in terms of:

- Manufacturing need-based products;
- The village leather industry to be upgraded in terms of quality, product design, etc., from the point of view of consumer satisfaction to effectively meet the challenge of organised sector;
- KVIC should take care of marketing by establishing marketing depots in selected places where there is good potential for sale of these products;
- Establishment of retail outlets on selected basis for leather goods saleable in urban markets only;

Proceedings of National Seminar on Marketing of KVI Products

- KVIC should take up purchasing and selling of intermediate leather by setting up wholesale depots as offtake points for the total output of leather of the artisans within their areas; and
- Set up market research cell at the State Board levels to obtain information on quantum of demand and changing pattern of demand.

6. *Blacksmithy*

There is a great potential for the development of this industry provided the artisans adjust the products to the trend in pattern of demand.

Marketing of blacksmithy products should be done by KVIC with various bulk buyers viz., Government construction industry, agro-based industry, etc.

7. *Handmade Paper*

Paper is one of the most extensively used product. Today there is a shortage of every type of paper. So whatever is produced can be sold as the demand is on an upward trend. The handmade paper industry is not facing any competition from the large units.

The KVIC should make concerted efforts to get bulk orders from the Government organisations and educational institutions whose daily requirement of paper is very high. This will stabilise the position of the industry and give the industry an opportunity to improve quality etc.

Study of Khadi Marketing Objectives, Strategy and Operational Policies

Introduction

In this paper the various threads of arguments developed in the report* have been brought together. Section I presents an overall view of the objectives and environment of the khadi enterprise, Section II presents a long range planning framework which could be of assistance to policy makers of KVIC. A concise summary of the major recommendations is given in Section III.

Section I

Objectives and Environment

Khadi has undergone a marked shift in its objectives from its inception as a fabric of self-reliance and resistance to foreign domination. Today, khadi and the associated village industries are instruments for *rural development* through village based projects. The major objective of the khadi industry is to create *economically viable employment in the villages*. This requires that the returns to khadi workers, especially spinners should be brought up to a level where employment in Khadi becomes remunerative in comparison to the other types of rural employment. It has been argued that the returns to Khadi workers can be increased mainly by improving the product-mix and concomitantly the price realisation of Khadi products. The self imposed constraints of "purity" and exclusivity might become barriers to marketing growth and thereby, barriers to the achievement of the primary objective of viable employment. For example, "purity", interpreted in the narrow sense of preventing any processing of Khadi fabric is already recognised to be an outdated concept. It has been well established that successful khadi marketing institutions have used value adding activities like processing, colouring, branding, tailoring and packaging to their advantage. On the other hand, the

*Brought out by Indian Institute of Management, Ahmedabad, 1976.

constraints of "exclusivity" has not been a hindrance to growth. In fact the strengths inherent in an exclusive distribution network have not been utilised fully by the khadi industry.

This in turn would require a substantial improvement in the *marketing planning and services* in the khadi sector. It is further argued that the loyal segment of customers, though substantial, no longer offers a growth plank for the khadi industry. The field studies show that khadi in fact caters to a number of significant market segments. A number of basic items are bought by the needy and poorer sections of the society. Some of the khadi products, especially readymades, are increasingly popular with the value seeking urban and semi-urban consumers. Also because of its texture and designs, khadi appeals to the fashion conscious customer in big cities. An effective marketing strategy for khadi would have to be based on a clear identification of growth opportunities in the various product market segments.

Market Environment for Khadi

Khadi at present forms a miniscule percentage (less than 1%) of the total textile market. In fact, in many product categories khadi is almost unrepresented. It is felt that the small market share of khadi rather than being a handicap presents growth opportunities in many product categories. It is found that several khadi institutions have been quite successful in attracting customers with varying buying motivations. It is strongly felt that the share of khadi in the total textile market can be substantially increased by means of a well co-ordinated marketing programme at the KVIC level.

In Section III, the marketing related recommendations are presented. However, before going to these specific recommendations, it is proposed to present a framework for long range planning which the top policy makers in KVIC could adopt. This framework would help to priorities and phase out various tasks.

Section II

FRAMEWORK FOR LONG RANGE PLANNING

Long Range Objectives

In terms of a long range perspective, the policy makers have to decide the extent of sales growth khadi can achieve (say in the next five years). It is felt that a target of increasing the sales of khadi by 100 to 120% in five years is achievable and reasonable. The growth of this magnitude is feasible because:

1. The present share of khadi in the textile market is very low and even zero in many product categories;
2. The growth rate of khadi in the last 10 to 15 years has ranged between 5 and 10%;
3. Significant growth opportunities are present in many new product market segments; and
4. The share of khadi in many product categories can be increased substantially by means of proper marketing effort.

A long range growth task, therefore, is one of doubling the sales of khadi in five years.

Specific Growth Tasks

To induce growth of the order of 100 to 120% in five years, the khadi industry would have to:

1. Release many constraints on growth
2. Re-orient financial and human resources;
3. Acquire appropriate resources; and
4. Initiate several growth oriented projects.

These broad tasks can be translated into several managerial activities to be performed over a span of the planning period.

Long Range Plan

To attain its growth targets, KVIC would have to develop several plans phased over the planning period. A basic long range plan would be the *Product Plan*. This plan should specify how the product mix in the khadi industry is going to evolve over the next five years. Obviously, the formulation of this long range product plan would require a very careful assessment of the growth opportunities in various product market segments. The product plan should be translated into a long range *product plan* in which the details of how to incentivise production into the required product mix categories should be spelled out. The production plan would be required to get a desired product mix. The next long range plan could be *Marketing Plan*. This would basically outline the growth of the requirements in a phased manner for the creation and location of various marketing facilities such as design centres, warehouses, cleaning centres, etc. (*Facility Plan*). From the Marketing and Production Plans would flow the requirements for financial and human resources. The *Financial Plan* should specify the sources and use of funds over the entire planning period. The *human resources plan* should outline the human resources requirements in the production as well as the marketing sector. This plan should not only indicate what new resources have to be inducted into the Production and Marketing Organisation, but also specify skills which need to be strengthened and upgraded.

Although this type of long range planning may seem ambitious, it is vitally necessary to achieve a long range growth objective. These objectives in turn have assumed an imperative character in the present state of the khadi enterprise.

Section III

Summary of Recommendations

On the basis of the analysis of the overall objective of the Khadi movement, and the strategic requirements flowing from these objectives, several recommendations have been made pertaining to Product Policy, Pricing, Promotion, Distribution, Marketing Organisation and Marketing Information System. In this section, these recommendations are summed up in a very concise form to enable the policy makers at KVIC to have a bird's eye view of the major outcome of this project.

Recommendations related to Product Policy

With regard to product policy, a major recommendation is that the growth opportunities of Khadi should be systematically analysed both on the basis of its representation in a particular textile product category and on the analysis of the various market segments. Specifically, growth opportunities seem to be open in the following areas :

1. low cost wearables (sarees, dhoties and garments) for the needy and indigent sections of the market;
2. highly standardised manufacture and improved marketing of selected khadi readymades which offer sufficient variety in relation to prices and design;
3. high value fashion items crafted out of the finer varieties of cotton khadi and silk and designed to appeal to the fashion conscious segment and;
4. items capitalising on the tropical suitability of the khadi fabric and appealing to the young urban market segments.

Of course, these opportunities do not exhaust the whole range of growth possibilities which exist for khadi. It is strongly recommended that the product category and market segment analysis as suggested should be carried out for the entire range of khadi products.

Recommendations related to Pricing

It is recommended that a pricing policy which allows a degree of flexibility to the Bhandars and yet does not contradict important sub-objectives of the khadi enterprise such as catering to the needy and remain non-profitteering. Specifically, (a) a pricing policy in which different categories of khadi products are allowed different ranges of margins, and (b) a reasonable formula for the distribution of surplus earnings (over and above current levels of margins). This formula has been designed to offer incentives to the production workers, the sales workers and to generate funds for promotion purposes.

Recommendations related to promotion

In the area of promotion, the basic recommendation is that the Commission should undertake a systematic analysis of its communication tasks with respect to the various publics (eg. Government Policy Makers, Opinion Leaders, Khadi Artisans and Consumers). The communication strategy (media and appeals) for each target public should be developed on the basis of communication tasks analysed earlier. Specifically, with respect to consumer promotion, it is recommended that :

1. the budget of consumer promotion should be increased to approximately half percent of the sales of khadi;
2. specific promotional strategies for corporate advertising, cooperative advertising and sales promotion should be drawn up; and
3. a distinctive logo and trade mark should be selected to establish and consolidate unique product image for khadi.

Recommendations relating to distribution

With respect to khadi distribution:

1. Commercial textiles outlets and mail order channels should not be used at this stage because they are not compatible with the requirements of khadi marketing.

2. The institution owned outlets should continue to be the mainstay of the khadi distribution system. The provision for opening khadi agencies should be utilised to a much greater extent. The sales limit on agencies should be raised to a level between Rs. 2 and 3 lakhs per year.

3. Outlets of handloom and Handicraft Boards and Consumer Cooperatives should be used to gain distribution of khadi in under-represented areas.

4. Location of new outlets should be on the basis of market potential for khadi in a market area. The Commission should play an active role in promoting outlets in under-represented areas. Also, the Commission should offer advisory services to the Institutions regarding outlet location.

5. The pattern of khadi outlets in any market area should be streamlined so as to have one central Bhandar and several satellite Bhandars to adequately cover the territory.

6. Regional centres which could serve as clearing houses for khadi stocks and marketing information should be opened.

7. Khadi outlets should have a distinctive and common identification.

8. Khadi outlets should be allowed to carry fast moving consumer products, if these do not compete with khadi and industries products.

Recommendations relating to marketing organisation and information systems

The implementation of the above recommendations would require that an effective Marketing Organisation be created at the KVIC level. This would entail:

1. The bringing together under one category of commercial operations, all the activities where KVIC is directly involved commercially like Khadi exports, at sales, supervision of KVIC Bhavans, etc.

2. The creation of *Marketing planning function* for developing marketing plans for cotton, woollen, and silk khadi for readymade garments and new products.

3. The integration and coordination of disparate marketing activities such as khadi publicity, sale training of khadi workers, marketing research pertaining to khadi products, sales promotion through exhibitions, consumer promotion, outlet location, etc. and offering of advisory and consultancy services to institutions under the organisational category of *Marketing Services*.

4. To achieve proper coordination, the commercial operations, marketing services and the marketing planning and functions should be directly supervised by the Deputy Chief Executive Officer of Khadi.

Proceedings of National Seminar on Marketing of KVI Products

The Marketing Information System should be designed to aid planning, control, feed-back and evaluation tasks. A detailed information system outlining data sources, processor of data, user categories, frequency of reports, etc. has been proposed.

It is hoped that the recommendations offered would help revitalise the marketing of khadi and achieve the objectives of economically viable employment.

Contd.

Marketing of KVI Products - Some Issues

Dr. Bhagwan Prasad *

Policy

The targets for the VI Plan for Khadi and Village Industries (KVI) sector considering the task enunciated in the VI Plan, are obviously ambitious. The sector will provide employment to additional 10 lakh persons; the production of Khadi is expected to go up from the present level of Rs. 98 crores to Rs. 200 crores and of village industries from Rs. 314 crores to Rs. 1,000 crores. This would mean that marketing centres have to be opened not only for existing level of production but to ensure that additional production visualised in the plan is also marketed. Can some estimate be made as to how many marketing centres would be required?

One of the major problems which the KVI Sector would face is the competition from the larger units in small as well as medium and large scale sectors. If it is visualised that the demand of the country of some of the basic items like washing soap, match etc., would be reserved in a graded manner and would be met by the KVI sector, can a policy decision be taken that the capacity of the larger units is pegged to the existing level? Further, as the production of the items in the KVI Sector goes on increasing in a phased manner, would it be feasible to persuade larger units to diversify their production and switch to items which required sophisticated technology?

There is a proposal to increase the number of industries to be covered under the KVI Sector. If this proposal is accepted, is the sector equipped to ensure marketing of the products of additional industries which would be covered in the KVI Sector?

It has been observed that products which could be produced with simpler technology should be produced by the masses themselves. The *Working Group* on Small Industry for VI Plan has identified 45 items which could be produced with

* Director, Industrial Development Department, SIET Institute, Hyderabad-500 045.

simpler technology. The guidelines on I.R.D. have already spelt out 33 items which are needed in rural areas. This list could be enlarged and all such items could be grouped under Village Industries. If all these items could be grouped under Village Industries and brought within the purview of KVI Sector, would it then not be feasible to expand the role of KVI Sector and evolve a more ambitious marketing strategy for the emerging role of this sector?

Marketing Channel

If marketing of village industries products has to be facilitated by the creation of additional channels, it is for discussion whether a channel should be oriented to a single product or should it be a multi-product one. If the choice is to have marketing centres which can sell more than one product, it would economise expenditure on such marketing centres. On the other hand, heterogenous products may have the problem of different approaches of tackling consumers, and therefore it is for consideration whether a marketing centre dealing with a variety of goods could really be effective. For example can products (say) like oil, cloth and handicrafts be sold under one roof? Again, can a common sales promotion programme be adopted for such a variety of goods?

The present network of KVI is confined to hardly 20 per cent of the villages in the country. In other words, 80 per cent of the area is yet to be tapped. How can additional channels be created in untapped areas?

Since 1970-71, the aggregate strength of staff of the KVIC has remained stable at around 4,000 and has not grown with the increasing activities of the commission. It is for consideration as to how the strength of personnel attached to KVICs and KVIBs could be strengthened? It is unlikely that existing strength can undertake additional roles.

Some of the marketing agencies are built-in in the project of product development itself. For example the agency concerned with the marketing of Lijjat papad was developed along with project of papad making. No independent agency was imposed upon this project. It is for consideration whether marketing agency should be developed as the project grows or should it be an independent agency.

The bulk of KVI products are sold through bhandars organised either by the commission or state boards or by voluntary agencies. The existing pattern does not take into account the large number of retail outlets already existing. Is it feasible to utilise this network for the distribution of KVI products ?

Marketing Support

If the objective is to facilitate marketing of KVI products at all levels, would it be possible to spell out the type of agencies which can undertake these roles at a state, district and even block level ?

If marketing has to be developed on modern lines it is to be ensured that the goods produced are of the right quality and the product enjoys the confidence of consumer. In fact in one of the seminars it was pointed out that there is accumulation of sub-standard goods which cannot be marketed. Could there be a mechanism through which the goods of the KVI Sector are standardised ?

While there are incentives and subsidies available for manufacturing activity, this promotional effort does not exist for the creation of marketing channels. For example, at the moment district industrial agencies are not concerned with the promotion of marketing entrepreneurs which does not form part of manufacturing activity and their activities exclude the promotion of tertiary sector. Bank finance these projects under what they call as "small business" but there is no promotional agency at the district and the block level to promote marketing entrepreneurs. Can district industries centres/IRD agencies undertake this promotional role ? Can marketing entrepreneurs be promoted under ISB/TRYSEM ?

It is a well known fact that an artisan is exploited by the middleman who usurps the lion's share. Is it possible to regulate the commissions charged by the middleman ? Alternately, is it possible to increase the competitive element amongst retailers, middlemen so that they continue to perform retailing functions but are no longer exploitative in nature.

Raw Materials

The share of raw material cost in the total cost of production is usually high in the case of village industry products. In products like processing of paddy, village oil, non-edible oils, the share of raw material cost is above 80 per cent. The share of raw material cost is more than 60 per cent in items like soap making, sisal fibre, carpentry, tanning etc. The KVIC can provide assistance in terms of raw material allocation and the operational side could be looked after by the State KVI Boards. It is imperative that the supply of raw materials is ensured to an artisan. If KVIC is in a position to ensure allocation of scarce raw materials at a national level to the KVI Sector, can stocking and distribution of raw materials be the responsibility of State KVI Boards? Can an artisan be guaranteed availability of raw material of the right quality, proper specification and at the right price? Rural marketing centres have been visualised by the Handicrafts Boards and about 50 centres are already functioning in the country. Would KVI like to create marketing centres exclusively devoted to their products, or can an integrated approach be adopted so that products of the entire decentralised sector are routed through rural marketing centres?

In order to increase the viability of KVI Products, one significant point is to ensure that an artisan is not affected by the fluctuations in the price of raw materials. Raw materials could be allocated to him in relation to his requirements which could either be based on the assessment of capacity or his actual production. As raw material may continue to be a critical variable for evolving an appropriate marketing strategy, will it be worthwhile to organise raw material depots? Will it also be possible to provide subsidies so that the raw material prices are uniformly the same and disadvantages of a unit located in far off areas, particularly in hilly and backward areas, are nullified through these subsidies?

Rural Marketing - A Pilot Study*

Concluding Observations

The findings of the present study confirm some of the anticipated characteristics of the small rural markets such as lack of choice, non-availability of certain goods, etc. On the other hand, some of the findings such as overwhelming reliance on the importance of branded goods in retail outlets in the outlying villages, were rather unexpected. Presumably the brand names must have got established over a period through experience of usage or word of mouth, apart from whatever initial awareness might have come from the organised media. By far the most important findings of the study are those which raise certain issues regarding the viability of retail outlets in rural areas particularly in the outlying villages.

Low Turnover and Margins

The low monthly stock turnover ratios in rural markets, particularly as one moves to the outlying villages, are indicative of the low stock holding capacity of retail outlets in rural areas. In turn, this would seem to affect their turnover. For instance, at Gomat and Khandeha, the two villages most characteristic of the outlying rural markets, the bulk of the retail outlets stocking general merchandise items had the stock turnover ratio of about 1, and for some product categories about 2. This compares unfavourably with the value of this ratio in the range of 5 to 10 for outlets selling similar products in big towns and cities.

The offtake of packaged products in a typical shop in the outlying villages worked out to only about Rs.10 per day. This level would, of course, rise in the peak selling seasons following the harvests. The seasonal emphasis on purchases also brings in its wake some obvious problems. The shopkeepers have to lure consumers by extending credit to them. For instance, at Tappal, nearly all retail outlets were extending

*Source: Rural Marketing: A Pilot study was sponsored by the Industrial Credit & Investment Corporation of India Ltd, Bombay, (1979) & conducted by the Indian Institute of Management, Ahmedabad.

credit facilities to their customers as most of them were cultivators and would pay when they sell their crops. At Khandeha three-fourths of the shopkeepers extended credit knowing well that their customers were poor. Credit facilities are given on an informal basis and it is not unusual for several shopkeepers to end up with bad debts.

In response to an open ended question, several respondents to the retail outlet survey mentioned that they were at a disadvantage due to their inability to compete with the outlets located in nearby towns. This situation was apparently relative as almost half of the retail outlets even in Khair made this comment. The proportion of similar responses was higher at Gomat and Tappal, where business of local shops suffered because of the households in these two villages did bulk of their shopping at Khair and Jattairi, respectively. At Gabhana, which itself had outlets clientele, only a third of the shopkeepers mentioned this handicap.

The poor infrastructure facilities such as lack of electrification of street/lane, apart from that of shops, meant a reduction in shopping hours. It was not convenient or was unsafe, to keep shops open after dark. Another problem was the layout of village; this inhibited proper access to shops. This point was made not only by two-fifths of the retail outlets in Khandeha, where this was obvious, but also by nearly all shopkeepers in Tappal and about a third of them in Gambhana. The latter approached through very narrow lanes which become unwalkable even with slight rain.

Issues for Consideration

The issue of development of shops in villages has to be viewed in the broader context of rural development and migration of rural population to urban areas. A conveniently located shopping area in a village is obviously conducive to the development of rural shops. Any plan of this nature could come about in conjunction with the provision of other facilities such as the village panchayat building, dispensary, etc. At the same time, the extension of basic facilities of transport and conveyance will have the effect of providing more outstation shopping opportunities to the population of these villages.

It would appear that the village shops have an important role to play from the point of view of making goods of frequent requirement available to the bulk of the rural population, especially the less well-off sections of the rural community. Perhaps, strengthening of road network and improving their condition would help the viable operations of rural retail outlet. With low stock turnover ratio and small volume of sales it might not appear worthwhile for manufacturers to incur the distribution expenses in small rural markets. Provision of incentives to manufacturers of products of common usage in villages for evolving some schemes for the supply of stocks at the shop need to be considered. These incentives could, for instance, take the form of partial reimbursement of expenses incurred on additional transport. The distribution facility may be extended beyond tehsils towns to villages either directly by manufacturers or their agents. Such a step will ensure the availability of goods in village shops at the same price as in the nearby towns. The product availability will improve and this will help raise the turnover of small village shops while providing better service to consumers.

The area of marketing except of agricultural product, has not received due attention in the programmes of rural development. If industry and other economic activities are to be established in rural areas, marketing orientation has to be imparted at the village level. A beginning can be made by helping the existing trading activity and also setting in the process of developing suitable channels, for undertaking marketing of goods to be produced in future in rural areas.

Export Marketing of Handicrafts Including Rural Industry Products

Dr. P. L. Varshney *

Handicrafts which include rural industry products are a fast expanding item of India's exports and now they account for about Rs. 250 crores (excluding jewellery). Some of the important items which come in this category are carpets, hand-printed textiles, pottery, bamboo work, woodwares, basketware, ivory products and hand-embroidered goods. In fact, a major portion of handicrafts production in India is exported.

Market Characteristics

Due to a great variety of products traded under the name of handicrafts, the market is very complex. But there are two main sectors of this market:

- i) Utility items, and
- ii) Artifacts.

Utility items constitute articles of every day use. They could themselves be sub-divided into: (i) utility items like salad bowls, tea sets, and other utility items, (ii) decorative items like wall plates, wall hangings, and (iii) items of personal use like hand-kerchiefs, kurtas and other dresses.

There is a very large market for utility items. However, suppliers must be capable of delivering large quantities and the articles must conform to quality and price standards. In many cases, handicrafts items may have to compete with machine-made articles. For example, hand-made salad bowls may compete with machine-made wooden salad bowls or with a plastic, China or glass one. However, there is a growing interest in unusual articles of every day use which is a reflection of the desire of the consumer to embellish their prosaic every

* Deputy Director General, Indian Institute of Foreign Trade, New Delhi.

day environment. Though there may be a certain preference for handmade articles on this ground, but ultimately consumers have to be satisfied with quality and price. While it is generally accepted that prices of handmade articles are somewhat higher than those of similar mass-produced items, yet prices are expected to be within a reasonable range. But it might be noted here that attempts have been made to make machine-made goods look rustic and give a handmade appearance to attract customers who are keen for handicraft items.

To get a better reception in foreign markets, careful and well-conceived designs are necessary. Materials which are domestically available at low prices have to be selected specially because the local craftsmen are traditionally used to work upon such materials. Incidentally this will also keep the prices low. The most important selling points are reasonable price in relation to quality and satisfactory delivery terms.

Articrafts

Articrafts are handicraft items that are primarily of an artistic nature, though this distinction is not a hard and fast one. For example, salad servers can be decorated with pictorial motifs typical of India to convert them into articrafts. The supply of articrafts is usually small. They are sold essentially for their artistic nature. They are purchased basically for novelty and appeal. Therefore, new items with unusual features will sell well. The market for such products is easily saturated as those articles are sold as one time curiosity items. In this category, there is virtually no market for low quality articles, particularly because these items are frequently purchased as gifts. High quality products indigenous to the country of manufacture have a very good market. But the demand is restricted to people in the higher income brackets. Again, to sell well the articles must have a genuine local flavour - an individuality representative of India. Price is a less important factor for this category of items.

Increasing World Imports

The world imports of handicraft items are showing a fast growth. For example, world imports of woollen carpets amounted to \$ 143 million in 1967 but they are expected to touch \$ 2,000 million by 1986. World imports of woodware amounted

to \$ 30 million in 1967 but they increased to \$ 143 million in 1976. World imports of basketware increased from \$ 40 million in 1967 to \$ 201 million in 1976.

The demand for handicraft products is increasing at a fast growing rate because of the following basic reasons:

1. Rising standard of living;
2. Increase in disposable incomes;
3. Increased construction activity; and
4. Growing world population.

The major markets for handicraft items are provided by developed European countries USA, Canada, Japan and Australia. In fact, OECD countries absorb about 85 per cent of world imports of handmade carpets. USA is the largest single market in the world for handicrafts importing about \$ 500 million worth of handicrafts. In Europe, Germany is the most important and dynamic market because of (i) increasing population, (ii) increasing affluence, and (iii) the use of Germany as a distribution centre for the entire Continent. So also, UK constitutes another important market because of its role as a distribution centre. The Middle Eastern countries might provide another market segment for handicrafts because of the rising incomes. The growing affluence of these countries has led the Middle Eastern population to adopt the Western ways of life and therefore their demand for these products is now continuously increasing.

Favourable Factors

There are certain specially favourable factors which might help India in increasing her exports of rural industry products and handicraft items.

1. Most handicraft items originating in India enter duty free in the European community. The USA also provides duty free entry to basketware, cigar and cigarette boxes, wooden forks and spoons, wooden household utensils, paper machine, embroidery work and carpets.

2. Where there is no provision for duty free entry the handicraft items are entitled to GSP concessions.
3. Most of the developed countries have set up import promotion centres to encourage imports from developing countries. These centres are looking for alternative sources of manufactured goods. They provide the necessary marketing information including import regulations and procedures. They can supply the list of importers, wholesalers, agents and distributors on request and can provide contacts for visiting businessman. They also assist traders from developing countries for participation in trade fairs and exhibitions and in some cases provide showroom facility for product display. There are in all 21 import promotion centres. A list of these import promotion centres and their addresses can be obtained from the Indian Institute of Foreign Trade, Trade Development Authority or any other export promotion organisation.

Main Outlets

Handicraft items are usually sold either by specialised retail shops or departmental stores. Specialised retail shops usually deal in high quality handicraft items. They usually visit trade fairs to compare merchandise, collect catalogues, contact new sources of supply and place orders for the coming season. Specialised retail shops prefer to deal with specialized importers (i) to reduce their risks, (ii) to have a larger selection and (iii) to ensure off the shelf delivery and thus control their inventory. They have their own representatives and salesmen to visit these specialised shops, maintain their showrooms to facilitate their sales and also exhibit at various trade fairs. It is reported that there are six hundred importers in USA. One large importer of crafts from India and Nepal sells to approximately 8,000 retail establishments.

Departmental Stores

They deal in mass appeal goods. They have a central buying organisation. They may import directly from tested overseas sources. Earlier, they imported mostly from Hong Kong, Taiwan and Korea. But they are now shifting

their purchases from other countries including India. They place quantity orders. The buyers of departmental stores are constantly searching for new products and new sources of skills.

Selling Handicraft Items Overseas

To sell handicraft items in the developed country markets, it is necessary to develop personal contacts, supply samples, and provide comprehensive information on (i) the raw materials used, (ii) supply potential, (iii) prices, (iv) delivery terms and (v) special properties like resistance to acids.

There are specialised trade fairs for handicraft items in almost every developed country especially in Europe and the United States. Participation in these trade fairs may lead to good business, offer opportunities for personal contacts with established importers/distributors. There is also an opportunity to inspect competing products and learn the buying methods of the various buyers. Exhibiting at such fairs may help in selecting an agent as well.

As would appear from the above discussion, it is not possible for the individual manufacturers of handicrafts of rural artisans to participate in export activity on their own. There are three alternative sources which they could tap for increasing their exports:

1. Buying Agents of Foreign Importers

Most U.S. and U.K. importers of handicrafts have their buying agents or appoint some merchant as their agents. These agents collect the merchandise from producers, label and pack the goods for shipment. These agents may visit the craftsmen, inspect their output, make payment for the goods, may supply the raw materials and supervise the flow of goods. They may also be required to prepare an assortment of locally made articles according to the choice of the importer.

2. The Handicrafts and Handlooms Export Corporation

This organisation is well-known to the buyers abroad and has a fairly good concentration of demand. It is on the look out for reliable supplies of handicraft products and is even prepared to finance the production of some items with a large demand.

3. *State Export Corporations/State Small Industries Corporations*

Most of the states have established their export corporations and are actively engaged in promoting the exports of these products and are also looking forward to reliable suppliers of these products. In the States where export corporations have not yet been established, State Small Industries Corporations act as export corporations.

4. *Export Houses and Training Houses*

These export houses/trading houses have some significant advantages for manufacturers of handicrafts: (i) they have expertise and information on market opportunities abroad (ii) they provide finance through trade credits, investments direct loans and loan guarantees; (iii) they are also able to absorb some of the risks inherent in trade because of the wide range of products they handle, and (iv) they can hedge against the foreign exchange fluctuations risks. They have economies of scale in transportation, warehousing and other areas related to physical distribution.

It may be of interest to note that it is obligatory for export houses to export products of small and cottage industries to the minimum extent of 5 per cent of their total sales of Rs. 25 lakhs, whichever is less. Their exports of small scale industry products are given double credit for purposes of recognition.

Incentives for Handicraft Exports

1. **Import Replenishment Licence** - Exporters of handicrafts are entitled to import replenishment licences according to the rates given in Appendix-17 of the Import Policy. However, in many cases it may be difficult for the individual manufacturer to import the necessary raw materials. They can get their raw material requirements from State Export Corporations/Small Industries Corporations as these corporations provide off the shelf supply of imported raw materials to their suppliers.

2. Exporters of handicraft products are entitled to drawback of import duty paid on imported raw materials so also drawback of excise duty on exported products. This also differs from product to product.
3. Cash compensatory support is also available for handicraft products. Of course, the rates of cash compensatory support differ from product to product but in general it is 10 per cent.
4. Subsidy is available from Marketing Development Assistance to the various State Export Corporations and export houses for export publicity and participation in trade fairs and exhibitions.

Institutions

There are some specific institutions which are specially set up to help the exporters of handicraft products:

1. The All India Handlooms and Handicrafts Board

The Board identifies and develops new range of handicrafts and alternative sources of supply and also organises a supply base capable of adhering to quantity, quality and delivery schedules.

2. Khadi & Village Industries Commission

The Khadi and Village Industries Commission is a statutory body charged with the planning, organisation and implementation of programmes for the development of twenty four village industries excluding khadi. Apart from undertaking, assisting and encouraging the production of khadi and other village industries, KVIC's activities cover organisation of trading of artisans engaged in these industries and encouragement of cooperative effort among them. Its functions also comprise building up a reserve of raw materials and implements for supply to producers and provisions of facilities for marketing of khadi and products of village industries. The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques employed in the khadi and village industries sector and providing facilities for the study of the problems relating to it.

3. *The Trade Development Authority (TDA)*

The Trade Development Authority provides under one roof a comprehensive range of services for export development right from the stage of production planning to the execution of export contracts. Handicrafts is one of the items covered by the TDA. It renders help and guidance to its members with market information and contact by concentrating on specific buyers in the select target markets. The package of services rendered by TDA includes supply of indigenous and imported inputs for export products.

The TDA has a continuous flow of specific trade enquiries and is in a position to farm out orders to reliable suppliers of handicraft products. The TDA arranges Buyer-Seller Meet and participation in fairs in its target markets and helps its members in identifying new products for export development.

Role of IIFT in Export Promotion of Rural Industries

The Indian Institute of Foreign Trade, over the past 17 years, has been endeavouring to assist the rural industries through (i) studies and surveys, and (ii) training programmes.

The Institute has undertaken a number of studies and surveys of various products of rural industries. Among these, mention may be made of the following:

- 1) Market survey on Palmyra Fibre and Products in USA, UK and Japan (1971-72);
- 2) Market Survey on India's Export Potential of Fresh and Processed Fruits & Vegetables in 22 selected countries (1968-69);
- 3) Market survey on Selected Handicrafts in USA (1974-75);
- 4) Market Survey in USA on Aggarbatties (1975-76);
- 5) Commodity Study on Animal Feeds (1965-66);
- 6) Cashewnut Shell Liquid - Prospects for expansion of internal consumption and exports (1974-75);

Proceedings of National Seminar on Marketing of KVI Products

- 7) Safety match industry in India - Export Prospects and Problems (1979-80),**
- 8) Fireworks Industry in India - Export Prospects and Problems (1979-80),**
- 9) Commodity study on Beeswax,**
- 10) Marketing survey for selected handicrafts in Japan, Hong Kong and Australia.**

In Addition, the Institute has undertaken 15 export potential surveys of various states and union territories. In these surveys, the Institute has undertaken indepth studies of various rural industries including handicrafts, hillcrafts, forest products, leather and leather industries, shellac, medicinal herbs, etc.

In its various training programmes, the Institute always gives preference to those emanating from rural, cottage and small scale industries.

Proceedings of National Seminars on TRYSEM and Rural Industries : Main Recommendations on Marketing*

Marketing Organisation

In the field of marketing, a national grid of institutions in the private, cooperative and corporate sectors needs to be established. At the national level, the basic initiative should come from organisations in the cooperative sector and by voluntary agencies. These should be federated at the apex national level on a specialised basis in all the sectors of rural industries. However, there is also a need for a separate National Rural Industries Marketing Corporation to perform a leadership role. The Corporation should undertake functions like hire-purchase of machinery, supply of critical raw materials, exports, quality control etc., but it should be ensured that marketing gets the top priority. The Corporation should have monitoring devices which send danger signals whenever the marketing system breaks down in any area. It should be prepared to step in and take remedial measures. Moreover, it will leave the specialised marketing functions to the national corporations.

On the marketing side, while the apex State Cooperative Federations and other voluntary agencies should look after the marketing and raw material needs of the different sub-sectors, there is a need for setting up of State Rural Industries Marketing Corporations which will fill the gaps wherever these exist.

The responsibility for providing raw material and marketing facilities of the district level should be with all the cooperative institutions and voluntary agencies, the gap being filled by district offices of the State Rural Industries Marketing Corporations. There should be raw material godowns of these Corporations at the district level.

The marketing system at the block level and below should consist of multi-product retail outlets of the cooperative system or the voluntary agencies. Procurement should be

* These seminars were held at the National Institute of Rural Development, Hyderabad, in July and September, 1980.

done locally and products of the different bodies exchanged on a local basis. Surpluses should be siphoned off by the higher echelons of these hierarchies.

The Rural Marketing and Service Centres should act as coordinating bodies. They may perform agency functions, and also fill in the organisational gaps wherever necessary. They may have godowns, if necessary.

Raw Material Depots

The raw material depots which are currently being operated by some state Small Industrial Development Corporations generally handle controlled and scarce raw materials. It was agreed that more of them should be established in as many centres as possible after making a study of the requirements of different regions in the state. This is very necessary if we have to cater to the requirements of rural industries in a big way. It was also felt that these depots should handle materials other than the ones normally handled at present. For example, a number of resource based products that can be developed in rural areas need raw materials whose supplies can be organised through the depots. These include items such as seasoned wood from the Forest Department, yarn of the requisite count for handlooms and bamboo for small scale units.

In the context of the North-Eastern region, there was a need to establish a Central depot for one or more states at a central place. States which do not have a strong mechanism for raw material distribution may avail of the facility of the centralised depot. Problem of railway wagons should be tackled on a priority basis for the North-Eastern region and subsidy of 50 per cent of road freight should be given for transport of materials from the Gauhati depot which is not permissible at present. For remote and hilly regions, the cost of landed raw material and fuel works out to be prohibitive. A system of freight equalisation should be worked out to set off this disadvantage.

Allocation of Scarce Raw Material

Scarce raw materials needed for rural industries should be handled by a nodal agency in the Government of India

either through the Development Commissioner (small scale industries) or through the Ministry of Rural Reconstruction. Certain percentage of raw materials should be earmarked for rural industries.

There is a case for ensuring supplies of yarn of requisite counts to the handloom sector. It is recommended that the Government of India should ensure supply of the requisite quantities either through pre-emption or directing spinning mills to supply the needed counts of yarn to rural industries and arrange for its distribution through the federations of handloom cooperatives or the small industries development corporations. In the long term, however, new spinning mills may have to be set up preferably in the cooperative sector or also under the national textile corporation whose bulk production could be earmarked for supply to the handloom centres.

It was also found that in handling such bulk supplies, the market variations may call for a subsidy to be earmarked to the handling agencies to meet the fluctuations in the markets so as to ensure a steady flow of the required raw materials to the rural industries sector, the losses being borne from a special fund to be created for the purpose.

Product Design, Testing and Standardisation

Some of the cooperative federations at state and national levels such as National Cooperative Consumers' Federation, National Federation of Industrial Cooperatives could be strengthened for taking up specific items that could be produced and marketed. The apex-level Cooperatives in Handlooms and in other areas could usefully organise a set-up for marketing the produce of the rural areas. There is need for strengthening the areas of design development through the various All-India Boards and State Development Corporations. Constant market survey and market intelligence needs to be undertaken to provide regular feedback to the producers.

Quality control for specific export items would have to be linked with the ISI standards wherever feasible. For other products, testing in States may have to be geared to take up quality control and similar activities through testing and inspection centres by grading products of different standards.

In the case of some items like carpets and hosiery, private sector is already very active specially for the export market and its services could be utilised for the needed integrated support in the form of supply of raw materials, quality control, developing new designs to suit consumer tastes and preferences, and ensuring sustained employment through the primary producers. The role of the government agencies should be to ensure a reasonable level of earnings for primary producers.

Rural Marketing and Service Centres (RMCs)

Since marketing is the crucial function in the development of rural industries, there should be an effort to develop an organisation to cater to supply raw materials, organise production, provide credit, update skills, introduce new technology, develop new products and designs and link up the marketing with other functions. It is recommended that in selected blocks where potential has been determined, RMCs may be started on a pilot basis.

The cluster approach can be very conducive for marketing assistance.

These proposed rural marketing and service centres should be linked with DICs on the one hand, and the all-India Boards, state small industries development corporations and cooperative federations at state and national levels, on the other.

There is need for a specific policy of giving preference in Government purchases from the rural industries sector. It would involve exclusive purchases to be made for specific items as well as giving price preference for certain other items.

The group appreciate the efforts of the Coir Board in the promotion of industrial cooperatives, product diversification, research and extension and development of new markets for these products. The Coir Board has already taken steps to revitalise a number of Coir Industrial Cooperatives, and is proposing to organise a Central Marketing organisation for Coir and also working out a new international

organisation to be called Coir International under the aegis of the FAO with representation of the developed countries as buyers and developing countries as producers.

The group recommends that the public distribution system should serve as an important marketing outlet for products of rural industries. The products of rural industries should find an access to this system.

Marketing

Initiating discussions, the Chairman raised three basic issues for consideration: firstly, whether an artisan needs massive marketing support. If the answer is in the affirmative, what type of organisational structure can meet this need. Secondly, should the bulk of artisans' production be geared for local consumption or linkages be established with outside markets? Again, what is the nature of raw materials required and whether the regulation of price and quality would make projects viable. Lastly, how to ensure marketability of products which are of seasonal nature.

The group deliberated the issues in detail and there was consensus on points mentioned in succeeding paragraphs.

There is a need to have an enlightened organisation which will replace the middle-man and ensure full benefit of added value to the artisans. It was felt that quasi-Government Corporations many times fail in this objective on account of high overheads. It was, therefore, recommended that beneficiaries should also be encouraged to operate the trade channels and thereby render service to artisans. Where industrial cooperatives are in a good shape, they should be encouraged to enter the market in a big way.

Marketing Centres in the rural areas should be linked with groups of villages, cities and larger towns. Wherever feasible, the concept of rural marketing centres at a block or a cluster level could be started.

One of the major problems of the artisans is that they are not able to hold stocks. If their holding capacity could be raised either through a revolving fund or their products could

be bought by an intermediate agency, it would increase the competitive strength of their products. Special care should be taken to ensure purchases from them during the lean period.

Raw Materials

The group discussed the issue of raw materials to be made available to the artisans. There was a feeling that under TRYSEM, only industries based on local resources should be encouraged. However, it was agreed that the present position in respect of raw materials to rural industries is far from satisfactory. A mechanism has to be evolved so that controlled raw materials and even local raw materials could be allocated to rural artisans at a reasonable price. It was, therefore, recommended that (i) Raw Material Banks at state, district and block levels should be started specially for rural artisans. Raw material depots could store critical inputs like yarn, dyes, chemicals, etc. (ii) Local raw materials such as leather, wool, bamboo, timber, clay, etc. should be reserved first to satisfy the requirements of local artisans. This will result in minimisation of conservation cost and help local artisans and development; (iii) In the case of scarce raw materials, the genuine needs of the artisans need to be assessed on the same lines as is done in the case of SSI units. The genuine requirements of rural artisans should be met on equal terms if not on preferential terms in allotment. The present arrangement totally ignores the claims of rural artisans.

Marketing of Khadi and Village Industries Products

C.D.V. Raghavulu*

With the fast changing times it is admitted that the approach and emphasis in marketing Khadi and Village Industries products is shifting from time to time. For more than half-a-century Khadi has been able to stand and face varying challenges.

As a result of expansion of production of khadi and village industries products, the marketing net has to be spread widely in order to meet the demands of the increasing clientele for these products. Thus thousands of khadi institutions pioneering the khadi movement have effectively responded by going in for rapid expansion of marketing by opening new Bhandars/Bhavans in towns and cities.

Link with Production

While considering the organisation of marketing, production can not be isolated. Until and unless production, both quantitatively and qualitatively is ensured, there is no point in planning marketing on a wider scale. Marketing and production are two sides of the same coin. Hence, simultaneous planning for production also is to be made. Further, while planning for the production of khadi, a variety wise production programme has to be drawn up. Otherwise, the sales organisations will be handicapped in meeting the demand of the customers. It is also to be ensured that production keeps pace with sales and that there are no ups and downs in production. The production plan is to be gone into full detail and a programme chalked out statewise for ensuring adequate and continuous supplies to marketing organisations.

Distribution

At present, the distribution system of khadi varieties is inadequate. Producing agencies have to run from pillar to post, at times even to the producing centres for procurement

* C.D.V. Raghavulu, Manager, Khadi Gramodyog Bhavan, Madras.

of khadi. This is not only time consuming but also expensive. It is, therefore, suggested that Regional Vastragars, as well as a Central Vastragar, are to be arranged in States. Necessary margins of one per cent can be provided in the Cost Chart for handling charges.

The major Bhavans which are considered to be Clearing Houses and Service Centres must be charged with the function of providing varieties and quantities to the growing number of new Bhandars/Bhavans and unless adequate stocks and varieties are kept, the targets can not be reached.

Processing

Processing of khadi has attained importance because of fast changing fashions. The demand for processed materials is increasing. Hence, due consideration is to be given to this aspect and arrangements for higher processing statewide, wherever feasible, is the need of the hour.

Wherever facilities for processing on large scale is available, necessary financial support and assistance be offered by the Commission.

With the limited facility now available for high processing of khadi, sales are adversely affected. Arrangements for adequate storage of chemicals and dye-stuffs be made by the Commission to ensure continuous flow to the processing units.

Sales on Wheels

In spite of sustained efforts during the past decades, we are not able to take khadi to large sections of the people. However, we are sure that we can reach the consumers by providing service at their door-steps. Our efforts, though on a small scale, have yielded positive results. We are, therefore, quite confident that we can deliver the goods by resorting to sales on wheels, especially village industries articles, mostly consumer-oriented daily necessities like edible oils, soaps (washing and toilet), cottage matches, dal etc.

In order to make this activity viable, it may be necessary to change our traditional approach, from the market place, to residential areas. It has been our experience that locating

Village Industries Sales Depots (Gramshilpa) at market places, is not so easy now-a-days because it involves heavy overheads such as rent, establishment etc. On the contrary, if storage places like garages in residential areas are taken, it will reduce much of the overheads and also enable the salesmen on wheels to cover a wider section of the community.

It is, therefore, now felt necessary to reach the consumer and serve him at door-step. The sale of village industries products by bi-cycles/tri-cycles are now gradually taking the field.

Mobile sales of khadi in vans can be organised in Metropolitan cities which will contribute to increasing sales.

Location of Bhandars/Bhavans

While opening new Bhandars/Bhavans, location plays vital role in determining the sales turn over. Ordinarily buildings in centrally located market places are not so easily or readily available and, if available, bear exorbitant rentals. State or Central Government may be requested to extend their help in securing suitable places or the Commission may provide some grant to meet the heavy initial expenditure on rentals, say atleast 50 per cent. The establishment grants provided under the pattern of assistance for new bhandars/bhavans is quite inadequate. Under the all-round increase in expenditure, it is necessary to liberalise the above facility in order to help new institutions starting new bhandars/bhavans. With the limited margins available for sales organisations, the viability will otherwise adversely affected.

Layout

In order to ensure proper presentation and outlook of the new bhandars/bhavans, model layouts and drawings of furniture be made available to the institutions opening new bhandars/bhavans.

Women's Wear

Very little attention is being paid towards women's wear, particularly sarees. The sale of women's wear is quite negligible. With the availability of muslin yarn it may not be

difficult to organise production of fine sarees which will have a ready market, provided up-to-date designs both in prints and weaving, are made available to the women folk.

Design centres be located wherever there is possibility of production of sarees, and the know-how, training and latest designs be made available to the production units for sarees production.

Readymades

There is no gainsaying the fact that Khadi readymades have stolen the limelight and has established its rightful place with the younger generation, especially the student world. Khadi readymades are also cheaper compared to others. The present sale of readymades in major sales centres is between 25 to 50 per cent of the total Khadi sales. Experience has shown that most of the readymades selling agencies are not attaching importance to standard production. It is suggested that arrangements be made for locating readymade processing in the States wherever feasible, for processing standard quality garments. This will automatically increase the sales.

Children's Garments

Children's garments are out of sight in most sales organisations. If necessary emphasis given to this aspect, sizable sales can be made in this line. Children's garments are absolutely not made available in woollen khadi. This is a long felt need, which requires immediate attention.

Hosiery

Now that Ambar yarn of uniform and proper twist is available, hosiery production can be undertaken in right earnest. There is unlimited demand for hosiery products like underwear, banians, briefs, socks, stockings and sportswear both for ladies and gents. This line of production is profitable and affords wide marketing facilities.

School Uniforms

The potentiality for school uniforms is almost unlimited. If this sort of sale is tapped with the assistance of both State

and Central Governments, it affords wide scope to push up khadi sales.

The sale of Khadi to state and central government employees on credit instalment basis may be organised and the necessary governmental help may be sought to facilitate recoveries from the pay of the staff.

Silk Khadi

Next to cotton khadi, silk khadi sales assumes equal importance. There is keen competition from handloom silk textiles which extend 10 to 20 per cent rebate on sale of silk varieties for about 60 days in a year. It is, therefore, suggested that the rebate content of silk during festivals must be not less than 10 percent and the duration may also be 60 days instead of the present 30 days.

Polyvastra

Polyvastra which falls under the purview of village industries, has great potential to bring in new clientele to the khadi field, especially the younger generation. It is suggested that this may be brought under the banner of Khadi, to attract rebate, and protection from the levy of excise duty now levied. If the excise duty is removed and rebate is extended as in the case of handloom sector, handspun and handwoven polyvastra will be definitely cheaper than that of handloom Polyvastra in colours and prints is capable of providing a sustained market.

Publicity

To promote sales of khadi, systematic propaganda and publicity is a must. A planned programme of publicity must be drawn up well in advance and special financial assistance towards this end will have to be made available to small and big institutions alike for effective propaganda and publicity. Publicity in newspapers, magazines, souvenirs, hoarding in public places like railway stations, airport etc., posters on lamp posts, commercial radio broadcasts, television telecast, display of all products in Five Star Hotels etc.

Exhibitions

In order to build up the image of khadi and village industries and also to carry the message of Swadeshi, small exhibitions in educational institutions will go a long way in building up the sale of khadi and village industries products among students. So also exhibitions during fairs and festivals at block, district and state levels be arranged periodically to keep khadi and village industry activities in the limelight. Timely financial assistance be made available to institutions to arrange these exhibitions.

Packaging

Packaging is another excellent form of publicity. This aspect is not given due importance in most of the sales bhandars/bhavans. This aspect may be considered to convey not only the message of khadi, but also the lines of merchandise handled by the sales organisation.

Training

Training in management and salesmanship to man the expanding sales activity, should not be treated lightly. Training facilities in marketing both refresher and short term courses, have to be provided at the state level, in the regional languages. Training in weaving and spinning for shorter periods to be given to workers holding vital positions in production of yarn and cloth to ensure quality in production. The present training facilities are quite inadequate and this brooks no delay.

Tourism

Tourism is becoming an important activity for earning foreign exchange. Tourists would like to go only to well maintained and impressive shopping centres. They have a special liking for hand-made articles. Bhavans have to make necessary arrangements for exchange of foreign currency and sending gift parcels abroad and also for mailing the purchases made by the tourists.

Village Industries

In the recent past, the consumer movement has gained momentum and the public distribution system has come into

play on a wider scale. To keep in step with the rising demand for consumer oriented village industries items, the production of edible oils, daily necessities like soap (both washing and toilet), cottage matches etc., have been stepped up. Consumers have become cost-conscious. Hence, the marketing of village industries products has assumed new dimensions. Apart from providing the consumers with quality and unadulterated stuff, the time has come when we have to be vigilant in keeping the prices of the village industries products within the reach of the common man. Also, we have to pass on to the consumer the benefits accrued due to price fluctuation from time to time. Above all, it is not just enough, if we serve the artisans. We have to keep in mind, the interest of the consumers who are life and breath of marketing of khadi and village industries.

Just like khadi purchases by State and Central Government departments, purchase of village industries products could be made obligatory by the departments concerned through issue of suitable orders by the State/Central Government.

Raw Materials

Now that V.I. Products sales are not only increasing but also becoming popular, it is absolutely essential to maintain the price levels and hold the price line. It is imperative that raw materials and other inputs are made available to the producing agencies in time and at reasonable prices. Necessary arrangements may be made in this direction.

Working Capital

It is a foregone conclusion that unless timely and adequate working capital is provided, the proposed targets may not be attainable. For example, if timely financial assistance is not arranged for sales organisations before the month of July every year, the procurement of goods required for seasonal sales will be adversely affected which in turn will have a bearing on sales targets. In suggesting institutional finance, timely assistance may not be possible and an unavoidable workload will be thrust on the organisations, affecting the institutions financially. Further, this will also add to the already heavy burden of expenditure due to escalation of prices. Hence, a total interest subsidy on both khadi and

village industries products be considered in the interest of expanding market. Also, extra margin of one per cent may be additionally provided in the cost chart to meet this contingency.

The present formula of treating bulk sale of rain protection cumblies to Tea and Coffee estates and railways as wholesales, eligible only for 25 per cent working capital is quite inadequate inasmuch as the cumbals have to be procured throughout the year continuously, to ensure continuous employment to the artisans and at the same time arrange timely supplies to the estates etc. Further, the settlement of dues by the estates entails delay from 3 to 6 months. A working capital of atleast 65 per cent eligible for retail sales, may be made available to the institutions engaged in the bulk supplies of woollen cumblies etc.

If the above suggestions find favour, there is no hesitation in predicting double the present sales in the Sixth Plan Period.

**Extract from 'Report on Village and Cottage
Industries': National Committee on the
Development of Backward Areas***

Marketing

1. The marketing problems of Village and Cottage Industries arise from two sources. First, exploitation by middlemen in their traditional markets and second, lack of a marketing organisation which will allow them to penetrate new markets. Both these problems have to be tackled if the artisans income level is to be raised and if the volume of production in this sector is to be increased.

2. It is often assumed that village and cottage industries produce for a purely local market. Whilst this is true of the bulk of the production in this sector, that is also true that quality goods are produced by artisan communities in various parts of the country which have a countrywide attraction. Artisans do not at present have the benefit of an organised marketing network. The marketing of goods of the artisan is done in three ways. The artisan and his family sell the produce to local clients or at the nearest *Hat* (village market) and also by hawking the goods. The artisan approaches the urban markets nearby through the established traders in these markets who cater to the urban clientele. The highly skilled artisan, with goods favoured in distant markets, also has to depend on the services of the *adathiya* or commission agents prevalent in the country. The artisan can rarely hold on to his stocks for any length of time to exploit the festival markets and has to sell as and when he produces. The trader in the urban market, and the *adathiya* in the distant markets who can hold for favourable seasons, naturally skim away the cream of the profit. It is, therefore, no surprise that the artisans as a class are among the poor of the country. Marketing support can be given to artisan groups through institutional arrangements or departmental support, so that the artisan cooperative is the obvious solution, but cooperatives depend very much on mutual trust and honesty in the community and their success depends on good management. The KVIC has taken the responsibility for marketing all the khadi product. The

*Planning Commission, Government of India, New Delhi (Oct. 1980).

handloom Corporations in various states have done yeoman work in producing marketing cover for many weavers. The Handloom Committee (1974) has suggested that Handloom Corporations should guarantee off-take of 50% of the production of the weaver for the urban market leaving 50% to be sold locally by the weaver or his cooperative organisation.

3. To rectify the position on the various fronts of marketing, the successive Five Year Plans have advocated several measures.

4. The First Plan saw the future of village industries as an integral component of industrial development and stressed the various elements, including marketing for their viable development. The Second Plan suggested positive marketing assistance for the decentralised sector of industries, including the stores purchase policy and marketing research facility. As per the Plan, "The purchasing procedures need to be re-oriented wherever necessary so that small units are assured of definite opportunities in the context of Government procurement and are thus able to utilise their potential capabilities". The Plan stressed that "studies in respect of the marketing of the more important products of village and small industries may be undertaken and on the basis of results obtained, the scope of marketing studies can be gradually extended". It has also suggested that industrial products should be marketed by organising sales emporia, apex stores, etc. Emphasis on market aspects has been evident in subsequent Five Year Plans as well.

5. The Khadi and Village Industries Commission (KVIC) and various All-India Boards dealing with specific lines of production, have created some network of marketing for the products of village and cottage industries. KVIC helps towards the setting up of central emporia, khadi bhandars and gramodyog sales depots, which undertake retail and wholesale sales of khadi products all over the country. Most of them are operated by the state boards and institutions. To boost up the sale of products, general and special rebates are provided for the distribution network evolved by KVIC of six Departmental Emporia, 4,000 khadi bhandars and Bhavans and 11,000 sales points and Gramodyog sales depot. KVIC is the recognised Registering Authority for export sales of cotton khadi. In respect of handicrafts, the All-India Handicrafts Board has

assisted in the establishment of internal sales and has also set up show rooms abroad for export sales. For handlooms, the All-India Handlooms Fabric Marketing Society has got its own emporia in addition to cooperative sales depots.

6. The position in respect of other All-India Boards is more or less on the same pattern. Industrial co-operatives have been assisting in the sale of products manufactured by their members either individually or collectively. District Industries Centres (DIC.) have been assigned to play an important role in the field of marketing. In the DIC one of the seven managers is to deal with the marketing aspects. The duties expected of this functionary are:

- i) to organise market surveys and market development programmes,
- ii) to organise marketing outlets,
- iii) to liaise with Government for procurement agencies, and
- iv) to convey market intelligence to entrepreneurs.

Even though the functions envisaged encompass the vital ingredients of marketing, actual performance of DIC depends upon higher level cover for effective organisation.

7. For marketing services to the large number of artisans and small entrepreneurs, the scheme of Rural Marketing and Services Centres (RMCs) was initiated at the block level in 1978. Even RMC was to keep a card for every village artisan in the block and provide services such as inputs, credit, marketing, improved tools/techniques according to the needs of the artisans. RMCs at the block level were to be linked with higher tier Government cooperative marketing organisation and state and national levels and the latter given support for expansion. The working of the RMC schemes which is in its nascent stage is hardly known. No systematic evaluation of the limited number of RMCs in operation is available and the impressions gathered so far does not present a very healthy state of affairs.

8. The essential element of mass marketing is that items demanded by the consumer should be available where the consumer demand exists. This necessitates having a wide network of retail outlets. Such networks as are available through the outlets of KVIC, handicrafts and handloom boards, super bazars etc., are very limited and are hardly in tune with the requirements.

9. Besides, there are public sector export organisations in the field of handicrafts and handlooms and these do help in the enhancement of the marketing network. Yet for the volume of goods handled, the overheads of each of these organisations appear to be high making the marketing cover costly. Each discipline wants to have its own selling centres with elaborate staff in the various urban markets that they feel can be exploited.

10. There are many reasons for poor efficiency in the existing marketing arrangements, more important being the inadaptability of the production to the needs in terms of attitudes, tastes and preferences of known markets; lack of quality control and non-standardisation of the product; limited size of local exploitable market; competition from the organised sector or substitute products, lack of market intelligence and lack of constructive advertising. On top of it, the artisans are, by tradition and circumstances, production oriented and not market-oriented. The pricing of the products has been done without appropriate regard for the costs involved in the production and marketing of their products.

11. To rectify the languishing marketing aspects of cottage and village industries requires not only market intelligence but also active organisation for actual marketing. Any comprehensive international framework of marketing aids to the sector has to effectively provide for adaptation to new needs and expectations through adoption of appropriate technology and production diversification. A marketing network can be created with the help of governmental agency, cooperative or a voluntary association for collective action. There are certain inherent difficulties in having collective action on voluntary basis on sizeable scale. It presupposes mutual understanding and appreciation on the part of the participant for its success. The absence of such factors is found in abundance and hence doubts about the workability of the voluntary scheme can well be understood.

12. In the scheme of things envisaged, it is proposed that the marketing functions would be undertaken by the covering organisation which would also be responsible for performing other functions. Institutions undertaking only marketing functions may not be very effective in all situations.

13. The marketing of village and cottage industry products has to reflect modern trends. The bulk of the output of village and cottage industries consists of consumer goods many of which compete with similar products produced in the organised sector e.g. textiles, matches, food products, footwear, leather products, etc. Hence, the marketing system for village and cottage industries must be equally organised and sophisticated.

14. The first requirement is that the village and cottage sector must produce a product which in design, quality and price can compete with organised sector output. It is true that some cottage industries products, in the field of textiles and handicrafts in the particular, have certain uniqueness and traditional designs which is their selling points. However, even for these products some product development is necessary e.g. for furnishing fabrics in the textile sector or new types of products in brassware. Hence, continuous monitoring of consumer preferences, fashion changes and design developments in the organised sector is necessary. A related area is that of packaging which has to be sufficiently attractive to compete for consumer attention in the shop. Some of these things have been done e.g. for export markets by the Handloom and Handicraft Export Corporation. However, the responsibility for these aspects is not clearly focussed. It cannot be done by the individual artisan or even a district level organisation. Therefore, it must be the responsibility of the state and central level set up for promotion of village and cottage industries and of the marketing organisation.

15. The second requirement is that the product must be available where and when the consumer normally purchases it. This means that retail outlets cannot be the same for all village and cottage industry products. Khadi *bhandars* and similar set ups have a role to play. But, it is too much to expect the consumer to hold back on his purchases of a variety of items like matches, honey, footwear, textiles, etc. till he visits

this *bhandar*. Each product must be available at the retail outlet at which it is usually purchased by the consumer. The marketing organisation must (a) identify the appropriate outlet for each product, (b) arrange for the product to be sold through this outlet, and (c) send sales representatives regularly to make supplies, provide promotional material and service the retailer. In many cases the marketing organisation may find it more economical to operate through distributors in the private retail trade, appointed on a commission basis to discharge these functions. This is how the large consumer goods producers in the organised sector operate.

16. The third major requirement is that of product promotion of local, regional and national level. This requires that for each product a strong brand image is built up and projected through advertising in mass media and other promotional measures. Since the output will be produced by a mass of artisans in different parts of the country, the brand image must be that of the state or central marketing organisation. A producer based brand image will be useful only in exceptional cases. The responsibility for such promotion must clearly rest with the state and central level marketing organisation.

17. The fourth major requirement is the need for a strong link between the marketing and production organisations. This is necessary to ensure that adequate stocks of the product are available where and when they are needed. Product promotion will not be achieved unless the product is produced in adequate quantities and despatched in time where the demand exists.

18. The mass marketing approach outlined above constitute a significant departure from present practice in which, with a few exceptions, there is heavy dependence on a few outlets like the Khadi Bhandars and Super Bazar. These outlets will continue to play a role and the super bazars in particular can help in the marketing of a fairly large amount of cottage industry output. But these retail outlets have a potential and a auntum jump in cottage industry output is only possible if the products of this sector compete with organised sector products in all retail markets, particularly those in urban areas. That this can be done is proved by the experience of Amul Butter and Lijjat Papad, to give two examples. These two examples highlight the workability of the scheme in different

situations. In case of butter, Gujarat Dairy Development Federation organises production at centralised points even though the collection of milk is from a large number of small producers. Quality of the production is ensured through quality control measures and the butter, thus produced, is marketed under brand names through the network of retailers. In case of Lijjat Papad, the production is through a large number of workers. These workers get their raw materials from centralised points and their product is taken back after strict adherence to quality control measures. The final product is well publicised, like in case of butter, and sold through the network of retailers.

19. Most of the marketing organisations limit their area of operation so as to ensure better returns. This system leads to exploitation and malpractices and calls for rectification. It is very desirable that the major chunk of production is distributed through a large number of outlets and the private retail channels are optimally utilised.

20. To give a boost to marketing, a link up between the supply of raw materials and marketing should be maintained. With the assured supply of raw materials, on reasonable terms, the artisan needs to be assured of a certain amount of off-take at the minimum. It is very difficult to fix any definite proportion as the nature of products is such a composite lot. Broadly, it may be assumed that an assurance of lifting 50% of the product from the artisan would give him great relief. The balance of the 50% may be left to him to meet his own personal needs and for marketing to the demand of his clients in the local markets at hand. In certain cases, like that of carpet manufacturing, a hundred per cent lifting of the product may be desirable as the local demand may be negligible. As such, it would be desirable to specify the limits of off-take of products, in each line of production, after taking due cognisance of the magnitude of the local demand. In any case, it should be ensured that the value of the off-take shall at least cover the cost of raw materials supplied.

21. Identification of markets, other than the local, would obviously have to be entrusted to some agency. At the district level the function can be rightly undertaken by the District Supply and Marketing Society (DSMS). A similar sort of function for the state level and international level

could perhaps be best performed by suitable state level and national level institutions, respectively. The proposed agency at the state level viz., State Rural Industries Development Corporation would be the right agency to undertake the functions at that level.

22. The pilot programme of rural marketing centres has taken upon itself a very wide franchise. In the present concept the RMC is also not supported by any higher level expertise. The Committee is of the view that the pilot project as at present envisaged cannot work for lack of necessary expertise in the RMC to manage all the items in its franchise. The Committee has elsewhere recommended a separate raw material and marketing organisation to cover village and cottage industries. For technical support and training, other organisations of a hierarchial nature starting from the group units have also been recommended. If these recommendations are accepted, the role of the rural marketing centre will be purely one of maintaining a suitable display and marketing centres at the urban level for all types of village industries. The committee would recommend that the operation of the RMC may be limited to this particularised service for the village and cottage industry.

23. An existing marketing centre under any of the All India organisations like KVIC, Handloom Board etc. has already developed its expertise for dealing with the products of that organisation. One need not tinker with the structure already built as far as the product of that parent organisation is concerned. However, the Committee would recommend that all these structures should become multi-disciplinary centres and sell such other products which can be profitably handled. But for the products of other organisations and other group units covered by the marketing chain, the rural marketing centres should preferably act as agents for sale. In effect, the rural marketing centres may work as an *adathiya*. A suitable commission arrangement will have to be made and the parent production organisation will also have to make provision for taking back unsold goods and marketing them elsewhere. As this may seem to indicate that the rural marketing centre has no role to play in pushing the wares of the village industries other than that of the parent organisation, the Committee wants to make it clear that these must be promoted as

effective sales centres. At the same time, in order to give an incentive to the unit for effectively pushing goods of industries other than that of the parent industry, suitable incentives should be built into the sale system. As the Committee has recommended that a local level DSMS will be incharge of the raw material and marketing cover, organisation will have to look after all these aspects of effective marketing. The responsibility for maintaining quality of goods, studying the consumer market and putting in the right type of goods at the urban centres should be the responsibility of the DSMS where intensive development is contemplated.

24. Where new rural marketing centres have to be developed, it is desirable that from the beginning they are developed as multi-commodity display and sales centres. They should be placed squarely under the DSMS and thereby the spread of urban marketing will be controlled by the society in an effective manner. At the same time the Committee wants to make it clear that one sale centre in an urban market may not be enough for pushing the entire production of village industries to market. Existing private retail shops should in any case be fully brought in the chain of distributors.

25. The marketing organisation has to cover one very important problem of the present artisans' marketing system in which they have to continuously produce and earn a livelihood, whereas their wares have generally a seasonal market. Even the local buyer of their goods prefers to link up the purchases of the village artisans' goods with the festivals, when it is traditionally utilised. The artisan at present not being able to hold back his goods has to go to the middle-man trader who does the effective distribution for the festival seasons. The marketing organisation will have to take over this important role. The organisation should be in a position to take overstocks of the producer on an agreed production level throughout the year. Whilst stocks may be displayed in the urban markets through the marketing centre and retail traders who are willing, a special push will have to be given during the festival seasons. In these seasons, the goods will fetch a higher price and larger sales can be done. The strategy of marketing will have to allow for all this. This means that the strategy of marketing cover must have facilities for storage to

keep goods in condition till the festival season and push the wares in the ready markets. Incidentally, the festivals for various village industry goods are different in different regions of the country. The overall marketing cover given by the State Rural Industries Development Corporation and the Central Corporation will have to do this service for exploiting the festival markets of the country effectively. At the district level there has to be storage accommodation for the society and necessary financial support for holding back stocks.

26. A suitable linkage with Government purchases can yield an assured market for the products of the village and cottage industries. Government agencies are meant to include all Central and State Governments, Defence, Railways, P & T and other public sector undertakings. In Tamil Nadu, reservation of purchases from village and cottage industries has been made obligatory and the scheme is reported to have shown encouraging results. For Governmental purchases, specifications and designs need to be settled in advance and should be adhered to. Adhoc change of specifications can put the industry in an awkward situation. Here the example of blanket purchases by the defence may be worth mentioning. A sudden change in the specifications of the lot ordered led to huge stocks with KVIC which found it very difficult to dispose off subsequently. For ensuring regular supply to Governmental agencies a proper tie up of the basic production units with districts and state level agencies and operation of a national grid for marketing needs to be ensured.

27. The committee has already suggested that DSMS should take back from the artisan at least 50% of his goods if not more. Presently, wherever marketing of goods of the artisans has been attempted on this basis, like in the Handloom Cooperatives and in the Coir Board, it has been found that there is no emphasis on ensuring quality of goods. It should be made clear that the artisans will be accepted by the marketing organisation only if it fulfils the basic standards laid down for the organisation. There should be no compromise in this matter. Whilst placing orders on the artisan, the marketing unit will have to continuously survey the market and see that the demand is for saleable varieties and standards. Thus, a continuous appraisal of the market and its needs and for ensuring the quality of the goods to meet the standard will be the responsibility of the DSMS. Whilst this may be theoretically

a sound proposition, in actual practice there can be two problems. Firstly, pressures can be brought in on the organisation to accept goods below quality. Secondly, having a sort of monopoly cover over the artisans where bad practices may develop in the marketing society so as not to pay a proper price for the goods by unnecessarily rejecting goods even though they are upto quality. For both these reasons it is desirable that a neutral body should be constituted where disputes of this nature can be taken up and arbitration secured. The Committee suggests that such a neutral body may be set up by DIC for each district comprising of technical experts who will be relevant to the problem. The decisions of these technical groups will be binding on both parties.

28. The present marketing organisation of the KVIC or the Handloom Board generally proceeds on the basis of cost plus. Such a method, firstly, does not look into the legitimate costing of the goods, and secondly, does not fully tap the consumer market. The marketing organisation should, therefore, see to the proper pricing of its ware. In its price to the artisan it should ensure a reasonable daily wage for work done. At the other end the price of the goods should be what the market will bear. In practice, working of this system will show that in the festival seasons price can be suitably marked up provided that standards are maintained and proper marketing efforts made. This opportunity to make profits should not be lost by the society. On the other hand, in the off-season, goods may not be saleable except at the cost basis. To push the goods and clear the goods quickly from stocks and enthuse the artisan to produce more, the strategy should be for a lower price during the off season. Unfortunately, our entire approach has been contrary. We maintain a high price in the off-season and a subsidised price in the festival seasons. This is not what the trade does. These nicities of trade practices will have to be built into the marketing structure.

29. The standard specification for goods and the organisation for checking the quality has to be built into the marketing system. There has to be a continuous appraisal of market demand. Soon after the Handloom Committee made its report in 1974, when the Development Commissioner was appointed in the Ministry of Industrial Development, research was carried out about the change in taste of people regarding

handloom cloth for the general population. It was found that contrary to the existing thinking the demand was moving up into higher counts of yarn. There is a continuous process of taste change in the consumer and greater sophistication in the demand. There has to be some organisation which studies the market patterns and changing tastes and then prepares the specifications for new types of goods that have to be produced. This responsibility can be spread between the Central Government and the State Governments. The district marketing organisation and the State Marketing Organisation can draw the standards for purchase of goods from the artisans on their assessment of the market.

30. The whole focus for the development of village and cottage industries need to be market-oriented and commercial and not sheer production - oriented, and should ensure fair wage to the artisan. In the production oriented approach the prime focus remains confined to providing social benefits at the cost of the State/Central Exchequer. Such an approach can only bring us near to an untenable situation and should not be encouraged for any length of time. A market - oriented commercial approach, on the other hand, would reduce the dependence of the village and cottage industries.

31. The art of selling consumer goods lies in effective advertisement. The general experience shows that the relative price of goods and the relative quality and lasting nature of goods has many a time, no relevance in the consumers opting for buying a particular product. That is why advertisement has come to stay as an important component of the marketing effort. Village and cottage industries have not been able to adopt this effective marketing strategy because each production unit is too small and getting together sufficient numbers to support an effective advertisement drive is an impossible task. The Committee recommends that in the initial stages this marketing through advertisement will have to be a service to be rendered by the State organisations for the development of village and cottage industries. A subsidised service for this purpose will be fully justified. This of course will have to be linked up with the capacity of the chain of organisations to produce the quality and quantity required in the market.

32. Our handloom experience shows us clearly that if a proper marketing strategy is evolved, it should be possible to sell the products of village and cottage industries in new and distant markets in the country. Cooptex of Tamil Nadu and the parallel organisation in Andhra Pradesh (APCO) have shown how they are marketing their products to the consumer who can be tempted to favour their goods. The States will have to take the initial lead in developing such covering organisations for the industries most prevalent in the State. The Centre's contribution will be the provision of marketing intelligence, training institutions, design development and suitable guidance to the States in improving their marketing strategies. Many products of the village and cottage industries are finding special markets in foreign countries and Committee recommends full tapping of such potential markets. Today, this sector of high manual involvement has a market in the affluent countries as handicrafts. Though our Handicrafts Board has done pioneering work in this direction much more can possibly be done in this and other fields. The skilled worker and the artisan will find their mottle only in meeting the taste of this sophisticated market. Incidentally, return for manual will be the highest in such a market.

33. The credit aspects of this sector are being dealt with by the Reserve Bank of India's Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development. This Committee, headed by Shri B. Sivaraman has submitted its report. The recommendations of this Committee would be examined to find out whether it has suggested suitable safeguards in respect of the problem at hand. In case of any deficiency, the requirements would be suitably highlighted in the chapter on credit requirements proposed to be included in the main report of the National Committee.

34. Credit requirements for marketing of production to the artisans will be fairly substantial. A rough estimate made by the Gaya Organisation, the Committee has already referred to, puts the demand between Rs.30 and 50 lakhs per year. Even though the ways and means credit can be obtained from the commercial banks or the cooperative system, margin money will be required for both the DSMS and SRIDC. Sufficient margin money have to be provided by the State

Government to these two organisations based on a reasonable appraisal of the business that will be developed. Adjustment of margin money should also be made from time to time as business develops.

35. The Reserve Bank of India has been providing credit at cheap rates to the handloom sector which works through cooperative societies and cooperative marketing organisations. It is only reasonable to expect that similar cheap credit facilities will be given for marketing of production to all the other village industries that are taken up for development by the States provided they are in the cooperative sector. But, the problem is that the number of artisans who have to be brought within the frame of development is so large, and the Committee has already indicated that it is too much to expect formation of viable and efficient cooperatives to cover this vast number of artisans within any reasonable period. In fact, the Committee is of the view that expecting a cooperative structure could develop in any large measure in the near future will be unwise. The DSMS and the SRIDC has been postulated by the Committee in order to meet this gap in organisation of this sector. The cheapness of the credit is not really meant for the cooperative, but enables the cooperative to give cheap credit to the artisan. The Committee recommends that the DSMS and the SRIDC who have to provide marketing facilities to the artisans at cheap rates should be enabled by the Reserve Bank to get its ways and means of credit for this purpose at cheap rates equal to those given to the cooperative system. The Central Government have already indicated that a Bill for formation of a National Bank of Agriculture and Rural Development will be introduced shortly in Parliament. When such an organisation comes into being, it should be possible for that organisation to support both the cooperatives and the State Corporations on par for the necessary funds for supporting artisans classes. Till then, some method will have to be found to give cheap credit to the DSMS and SRIDC. The Committee recommends that this should be considered on a priority basis and an answer found early by the Central Government.

**Speech by Shri M. Manik Rao,
Minister for Commercial Taxes and
Khadi & Village Industries Board,
Government of Andhra Pradesh,
Hyderabad.**

Mr. Chairman, I thank you very much for giving me the privilege of inaugurating this seminar on Marketing of Khadi and Village Industries Products. At the outset, I would like to congratulate the Ministry of Rural Reconstruction not only for arranging this seminar, but also for selecting the subject of marketing for the seminar. The participants that have assembled here, I presume are the people who were deeply involved in the Khadi and Village Industries Programmes. Your practical experience in this field would certainly help us in formulating the policies of the State and Central Governments.

As you know there are several problems facing the marketing of khadi and village industries products.

The bulk of production of khadi and village industries sector is by artisans in remote rural areas and because of lack of suitable marketing facilities middle-men are becoming rich and rich and the artisans are becoming poor and poor, day by day. If this trend is allowed to continue I am afraid, this sector cannot flourish in future. Therefore, it is gratifying to note that the Ministry of Rural Reconstruction has organised this seminar to evolve the strategy for marketing the khadi and village industries products.

I would now proceed to point out some basic problems involved in this regard.

Khadi and village industries products cannot compete with products produced on a large scale by sophisticated machines. Yet, in view of the national sentiment attached to khadi and the employment provided by this sector to the rural people, their development cannot be neglected.

There are only two ways of solving this. One is to give subsidies. This, of course, would be at a social cost which the country has to bear. The second is to make reservations for this sector. This is an all India policy to be decided by the Government of India. So far as Andhra Pradesh State is concerned, we have issued a G.O. reserving 50% of the requirements of the Government Departments to this sector. We also supplement the subsidies on khadi sanctioned by the Khadi Commission.

The second important problem I would like to stress is the quality of "Salesmanship" that has to be developed by this sector. All the marketing outlets are run by Commission, or the Boards or the certified institutions. These Khadi Bhandars by and large, barring a few, do not attract customers in large numbers. If you analyse the clientele for your products, you find that they will either be people who wear khadi out of sentiment or people who come during "rebate sales". Efforts should therefore be made to attract other customers by evolving all aggressive salesmanship and advertisement programmes.

Thirdly, Khadi and Village Industries products should be produced in line with the day-to-day fashion and change their pattern of production to suit the ever changing tastes of the customers. In this field Khadi and Village Industries sector has to go a long way, and I am sure that this seminar would bestow thought on this.

The present scheme of marketing envisaged by the Khadi Commission is to channel the entire production of khadi through certified Khadi Bhandars. As you know, there are so many uncertified Khadi Bhandars run by private enterprise doing business. I would like you to discuss the desirability of selling khadi only through certified Bhandars. It is my personal view that you should induct private enterprise to help you in marketing your products. The success of "Amul" owes mainly to the chain of marketing outlets through which it is marketed. While ensuring quality of products, the khadi and village industries sector, in my view, should also popularise its products taking advantage of the initiative and enterprise of the private sector. The Khadi Commission as well as the Khadi Board can have enforcement machinery to ensure that

quality goods are sold at specified prices to the consumers. If necessary we may embark on suitable legislation for this purpose on the lines of Drug Control orders or Adulteration orders.

When we take steps to increase the marketing facilities, steps should also be taken to increase the production in khadi and village industries sector. Often, the products required are not found in sufficient quantities and this factor is affecting the growth of consumers, preference for the khadi and village industries products. The existing value of production according to the estimates of the Khadi and Village Industries Commission is of the order of Rs 450 crores. We have committed to double this in the VI plan and this calls for concerted efforts on the part of the Khadi & Village Industries Commission and Khadi Boards on several issues.

The most important being, supply of suitable and sufficient raw materials required by this sector. You would agree with me that core raw materials required by the khadi and village industries sector come either from agriculture or from organised industrial sector. Suitable mechanism should be evolved to ensure that the Khadi & Village Industries section is not starved of these raw materials. Take the case of potassium chlorate required for the cottage match industry. The commodity is now produced mainly by "Wimco" and other big organisations. The Khadi and Village Industries Commission and Government of India should ensure that a percentage of production by this organised sectors is reserved exclusively for the use of khadi and village industries sector. In the agricultural sector, there is a flight of raw materials from the rural areas to the urban centres. This tendency should also be regulated, if not reversed.

The other important issue that requires serious consideration is the supply of suitable machinery to this sector. The improved tools and equipments introduced by Khadi and Village Industries Commission are produced mainly in a few centres which are not able to supply sufficient numbers and they are not in a position to offer any after sales service to the purchaser. The success of khadi and village industries sector, I feel, depends mainly on their decentralisation. I hope this seminar would discuss specific industries and make suitable recommendations in this regard to the authorities concerned.

Proceedings of National Seminar on Marketing of KVI Products

I have placed before you a few of the main problems concerning production and distributions of the khadi and village industries sector, and I am sure that this seminar would consider in detail other problems and suggest suitable solutions to increase the production, distribution and consumption of khadi & village industries products in the country.

I thank you very much for giving me a patient hearing.

List of Delegates

1. **Shri V. Ananda Rau**
Joint Secretary
Dept., of Rural Development
Govt. of Andhra Pradesh
Secretariat
Hyderabad
2. **Shri P. Arumukham**
Head, Dept. of Rural
Industries & Management
The Gandhigram Rural
Institute
Gandhigram 624 302
Madurai District (TN)
3. **Dr. Bhagwan Prasad**
Seminar Director
SIET Institute
Hyderabad 500 045
4. **Shri S. C. Bhargava**
Programme Officer (Village
and Food Technology)
UN Children's Fund
73 Lodi Estate
New Delhi 110 003
5. **Shri M. B. Hasalkar**
Project Officer
India Development Service (I)
98/2, Kalgeri Road
Dharwad 580 008
Karnataka
6. **Shri R. K. Ganguly, IAS**
Chief Executive Officer
Khadi & Village Industries
Commission, Gramodaya
3 Irla Road
Vile Parle (West)
Bombay 400 056
7. **Shri K. Jayaramulu**
Associate Faculty Member
SIET Institute
Hyderabad 500 045
8. **Shri L. N. Kalra**
Deputy Chief Officer
Reserve Bank of India
Saifabad
Hyderabad
9. **Shri M. K. Kaw**
Joint Commissioner (Trg.)
Ministry of Rural
Reconstruction
Krishi Bhavan
New Delhi 110 001
10. **Shri M. Krishnamoorthy**
Asst. Chief Officer
DBOD, Reserve Bank of India
Hyderabad
11. **Shri S. Krishnamurthi**
Chief Executive Officer
A. P. Khadi & Village
Industries Board
Hyderabad
12. **Shri B. Majumdar**
Director (Leather)
Khadi & Village Industries
Commission
Gramodaya, 3 Irla Road
Vile Parle (West)
Bombay 400 056
13. **Smt. S. Mirchandani**
Associate Faculty Member
SIET Institute
Hyderabad 500 045
14. **Shri Mohd. Fazil**
General Manager
Khadicraft
10-4-2, Humayun Nagar
Hyderabad 500 028
15. **Shri D. Nagaiya**
Sr. Faculty Member
SIET Institute
Hyderabad 500 045

Proceedings of National Seminar on Marketing of KVI Products

16. Shri Padmanabhan
Financial Adviser
A.P. Khadi & Village
Industries Board
10-4-2, Humayun Nagar
Hyderabad 500 028
17. Shri M. R. Pai
Principal
Institute of Public Adminis-
tration, Hyderabad
18. Shri J. R. Prabhu
Deputy Chief Officer
Reserve Bank of India
Bombay
19. Shri M. V. Raghava Rao
Director
Estate Office, KVIC
Hyderabad
20. Shri C.D.V. Raghavulu
Manager
Khadi Gramodyog Bhavan
844, Anna Salai
Madras 600 002
21. Shri S.G. Raghu
Principal Director
SIET Institute
Hyderabad 500 045
22. Shri A. Rama Rao
Deputy Chief Executive officer
Khadi & Village Industries
Commission
Gramodaya, 3 Irla Road
Vile Parle (West)
Bombay 400 056
23. Shri G.U.K. Rao
Research Associate
SIET Institute
Hyderabad 500 045
24. Shri V.P. Rama Rao, IAS
Joint Secretary
Government of India
Department of Supply
New Delhi
25. Shri S. K. Rau
Director General
National Institute for Rural
Development
Rajendranagar
Hyderabad
26. Shri A.V.K. Sarma
Associate Faculty Member
SIET Institute
Hyderabad 500 045
27. Shri T. L. Shankar
Director
Institute of Public
Enterprises
Hyderabad
28. Shri V.B.R.S. Soma Sekhar Rao
Assistant Director
National Institute for
Rural Development
Rajendranagar
Hyderabad
29. Shri V. Srinivasan
Chief Officer (SIB)
State Bank of India
(SI & SB Banking Dept.)
Central Office
Madam Cama Road
P. B. No. 12
Bombay 400 021
30. Shri Sundar Vesuvadan
Deputy Director
Khadi & Village Industries
Commission
Gramodaya
3 Irla Road, Vile Parle (West)
Bombay 400 056
31. Shri G.P. Vallabha Reddy
Research Associate
SIET Institute
Hyderabad 500 045
32. Smt. S. Vanaja Rao
Research Associate
SIET Institute
Hyderabad 500 045
33. Dr. R.L. Varshney
Deputy Director General
Indian Institute of Foreign
Trade, Ashok Bhavan
93, Nehru Place,
New Delhi. 110 019.

SIET Publications

Sl. No.	Title	Price (exclusive of postal charges) in Rs. \$	
1.	Appropriate Technologies for Indian Industry : Papers of a Seminar (1964)	20-00	10-00
2.	From Auto Slums to Autonagar : A case study of the genesis and development of the Jawahar Autonagar, Vijayawada (1972)	20-00	10-00
3.	SENDOC Guide to Information Sources	20-00	10-00
4.	Channels of Distribution for Small Industry Products (mimeo, 1973)	20-00	10-00
5.	Socio-Psychological factors influencing the adoption of Innovation of starting a small industry (1974)	20-00	10-00
6.	Scope for Ancillary Industries in and around Hyderabad (mimeo, 1974)	35-00	18-00
7.	Industrialisation of Central Vidharbha, a growth centre project (1975)	20-00	10-00
8.	Capital Requirements of small industry products (1976)	25-00	13-00
9.	Growth Dimensions in Lift Channel Command Area (1975)	20-00	10-00
10.	Report on Growth Potential, Urbanisation and Optimisation of Small Industries in Nagarjunasagar Development Area (1971)	20-00	10-00
11.	Index to Product Profiles at SENDOC	50-00	12-00
12.	Guide to Bread and Biscuit Industries	15-00	- -
13.	SENDOC - Status of Technology Report No. 1 - Machine Tools	50-00	- -
14.	Small Entrepreneurial Development - Indian experience in North Eastern Region	40-00	20-00
15.	Developing Entrepreneurship : Issues & Problems	50-00	- -
16.	SENDOC Survey Series No. I India's Bicycle Industry - An Economic Survey	25-00	- -
17.	SENDOC Survey Series No. II Plywood, Fibre Board and Board Industries of India.	25-00	- -
18.	A Hand Book for Extension Services, Rural Industrial Development 1980	40-00	- -

Discount Rates :	2 to 10 copies : 10%
(for book-sellers only)	11 to 25 copies : 25%
	26 and above : 30%

Periodicals	Rates of subscription	
	Rs.	\$
1. Small Enterprises Development, Management and Extension Journal SEDME (quarterly)	15-00	8-00
2. SENDOC Bulletin I : Industry and Technology (monthly)	50-00	20-00
SENDOC Bulletin II : Economics and Development (monthly)	50-00	20-00
SENDOC Bulletin III : Management and Behavioural Sciences (Monthly)	50-00	20-00
3. SENDOC Chronicle (fortnightly)	60-00	25-00
4. Appropriate Technology Documentation Bulletin (bi-monthly)	25-00	10-00

A Concessional annual subscription of Rs. 200/- is charged from those who subscribe to all the five SENDOC periodicals.

Readymade Profiles on small industry products are available.

All Cheques/Demand Drafts may please be drawn in favour of the Principal Director, SIET Institute, Yousufguda, Hyderabad 500 045.

For details, please write to : The Director (Documentation)
SIET Institute
Yousufguda, Hyderabad 500 045 (India)