OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

c.66/13

UNITED NATIONS

D04770

Copy 2

CONSULTATIVE GROUP ON INDUSTRIAL ESTATES AND INDUSTRIAL AREAS

Geneva, Switzerland
24 to 29 October 1966

Agenda item 8

CID/IE.1/9
24 August 1966
ORIGINAL: ENGLISH

PUBLIC AND PRIVATE FINANCING OF INDUSTRIAL ESTATE PROJECTS AND STIMULATION OF PRIVATE PROJECTS BY GOVERNMENT AUTHORITIES, WITH SPECIAL REFERENCE TO INDIA'S EXPERIENCE

66-47209

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

TABLE OF CONTENTS

Page

PUBLIC AND PRIVATE FINANCING OF INDUSTRIAL ESTATE PROJECTS AND STIMULATION OF PRIVATE PROJECTS BY GOVERNMENT AUTHORITIES, WITH SPECIAL REFERENCE TO INDIA'S EXPERIENCE

INTRODUCTION

After the Second World War, political developments in a large number of countries brought to the forefront the compelling need for economic development. The newly emerging independent nations had many problems to face - a major one being the need for speedy industrialization for raising the general standards of living. The process of economic development demands adequate resources, trained personnel, pragmatic planning and an efficient administrative machinery. But most of the developing countries suffer from the lack of these prime requisites, although they have the will and desire for economic improvement. In the process, the Governments of these countries have in most cases to assume an active role, providing the necessary capital, initiative, assistance and incentive, and at the same time employing various measures, either directly or through agencies and institutions, for achieving the desired results.

One of the important aspects of industrialization is the development of small-scale industries and one of the most effective instruments to promote these is the industrial estate. As a technique for development, it has long ago received recognition in some of the advanced countries such as the United Kingdom and the United States. In these countries, the industrial estate is used primarily as a device for planned location of industries or for development of backward pockets like the depressed areas in Wales. In the developing countries its principal objective is to promote industrial entrepreneurship. In some countries, for instance in Ireland and Malta, it is to attract foreign capital and enterprise. At present, 56 countries - 12 in Europe, 3 in North America, 11 in South America, 16 in Asia and the Far East and 14 in Africa - either have established industrial estates or have programmes for their establishment. 1/

1/ See Industrial Estates: Policies, Plans and Progress - A Comparative Analysis of International Experience, United Nations publication, 1966 (Sales No.: 66.II.B.16).

This paper was prepared by Mr. B.K. Chatterji, Chief Officer (Small-scale Industries), State Bank of India, Central Office, Bombay, India.

Among the industrializing countries, India has the largest industrial estate programme, both as regards number and geographical coverage. This programme is part of the country's programme of development of small-scale industries, the objectives of which are to create immediate and permanent employment on a large scale at relatively small capital cost, meet a substantial part of the increased demand for consumer goods and simple producers goods, facilitate mobilization of resources of capital and skill which might otherwise remain inadequately utilized and bring about integration of the development of these industries with the rural economy on the one hand and large-scale industry on the other.

The successive Five Year Plans contemplated a comprehensive programme for the establishment of industrial estates, initiated by the central Government. The programme was a necessary step because the idea was new and central initiative and guidance were required to test it and to infuse confidence in other agencies. Today the industrial estates are mostly controlled and managed by the state governments. Their growth over the years has been remarkable as the following statistics will show:

Table I

	Number of estates	Amount allocated (Millions of rupees)*
First Five Year Plan (1951-56)	10	5.8
Second Five Year Plan (1956-61)	110	111.2
Third Five Year Plan (1961-66)	300	302.0

* Rs. 4.76 = $1 before 6 June 1966
Rs. 7.50 = $1 from 6 June 1966.

As on 31 March 1965, the position was as follows:

Table II

(1)	Total number of industrial estates sanctioned by the Centre (increased from 300 sanctioned for the entire Plan ending 1966)	341
(2)	Number of estates functioning	130
(3)	Number of estates completed but not functioning	57
(4)	Number of estates under construction or at preliminary stage	154
(5)	Number of sheds constructed in all the estates	4,574
(6)	Number of sheds allotted	3,941
(7)	Number of sheds occupied for production purposes	3,425
(8)	Number of sheds functioning	2,803
(9)	Number of units functioning	2,416
(10)	Number of units that have reported production	1,629
(11)	Half-yearly production reported	Rs.196, 971, 999
(12)	Employment reported	43,698

As regards the Fourth Five Year Plan (1966-71), a Working Group constituted by the Government of India to assist in the drafting of the plan for small-scale industries has recommended an expenditure of Rs.650 million on the growth and development of industrial estates and the establishment of new estates during this period at 149 urban centres and 700 growth points (small towns) spread over the country.

The growth of small industries being the raison d'être for the growth and development of industrial estates in the country, it was only natural - having regard to the size and population of the country - that such estates should be formed in larger numbers in India than elsewhere, including perhaps the developed countries. The examples and illustrations in this paper have consequently been mostly drawn from India, although efforts have been made, wherever possible, to refer to achievements in other countries.

This paper is concerned with the financing of industrial estates and the subject will be discussed by types of industrial estates (see chart detailing the general set up of industrial estates in Annex).

Leaving aside some very specialized types of projects such as research estates of universities, the various types of industrial estates have been grouped under three broad categories - the first relating to the sponsorship or ownership of the estates, the second to their location and the third to their type of industrial activity. The sub-heads under the various categories provide for permutation and combination as it were, inasmuch as an urban industrial estate can be functioning on an ancillary basis or on a composite or functional basis, and can be owned or operated by the government or by a privately formed co-operative or corporation or be "private assisted" that is, subsidized by the government. Similarly, a rural industrial estate can be functional or composite, and can be privately operated or be run or merely subsidised by the government. This would apply also to the industrial estates located in the suburban or semi-urban areas. Since the subject of this paper is concerned only with the financing of industrial estate projects, the rules and regulations of the various types of estates, in particular those pertaining to the formation of co-operatives and corporations have not been touched upon.

I. FINANCING OF ESTATES ACCORDING TO SPONSORSHIP OR OWNERSHIP

The question of financing of industrial estates is closely related to the nature of the sponsoring authority, and the suitability of a particular agency in turn depends to a considerable degree on the country's state of development and the policy it follows in regard to the respective roles of private enterprise and the state. Flowing from this primarily is the difference between the growth of industrial estates in the developed and developing countries.

1. Government and municipal industrial estates

The government sponsored and financed industrial estate has hitherto been the norm in the development of industrial estates in India, as it would for obvious reasons be in any developing country. Initially, in order to appeal to the minds of the people and the state governments, a demonstration of its utility in a concrete form was necessary. This task was undertaken by the central Government and thus the industrial estates at Okhla and Naini came into existence. In due course one such estate in every important industrial city was actively planned, but with the passage of time the programme was considerably enlarged and the formation of a whole network of estates was decided.

Two experiments were tried at an early stage: one consisted of transferring the management and development of the estates to the state governments, and the other of transferring it to a government corporation, the National Small Industries Corporation Ltd. Thus two industrial estates, one at Okhla (since transferred to the Delhi Administration) and the other at Naini, were handed over for management and expansion purposes to the Corporation. The position now is that the state governments manage practically all the urban, semi-urban and rural industrial estates and are also entrusted with the formation and development of new estates under a system of loans and grants (described below) from the central government which also prescribes norms and standards to be observed in the construction of the estates.

The Government of India and the state governments have not so far formulated any proposals for transferring complete industrial estates to private ownership and management on the basis of either lease on rent, outright sale or hire-purchase. However, within certain industrial estates occupation of individual worksheds by industrial units has been allowed on each of these bases. Also, plots of land have been developed in an estate, either directly or through a government corporation, for outright sale or sale on hire-purchase basis. In the case of outright sale, the sale deed is executed after the worksheds are constructed, the government or the corporation allowing in the meantime for assignment of the lease of the land by the occupying units to a credit institution as security for obtaining term finance for the construction of the worksheds. In other cases, the government has allowed units to construct worksheds in the capacity of government's contractors, and thereafter to occupy the sheds either on outright sale or on hire-purchase. Occupation of work-sheds on the basis of lease on rent is a common feature. This is found, for example, in the Naini, Howrah and Hillerganj industrial estates. Sale of constructed worksheds, either outright or on hire-purchase was allowed, for example, at the Baruipur industrial estate. The sale of developed plots of land again outright or on hire-purchase, was under-taken by the Maharashtra Government at the Kandivli industrial estate. And lastly, whenever an industrial estate comes up in a "rural industries project",[2/] the industrialists allotted plots in the estate are allowed to act as government contractors for constructing the worksheds and to occupy them either on outright sale or hire-purchase. In all these cases, however, whether the plots and worksheds are leased or sold, the estates continue to be government estates since their management continues to rest with the government.

2/ See part II.

State governments in India assist individual units located in government estates in another way, which they cannot do in respect of units not located there. As has been indicated, some government estates provide for occupation of worksheds on the basis of lease on rent, while some others extend hire-purchase facilities under which the instalment amounts paid by the units contain the element of rent. In both these cases, the rent charged to the units is lower than the economic rent for an initial period of three to five years. Thereafter, the economic rent is charged.

Most of the state governments do not allow the further sale of individual factories to third parties, for they apprehend that this would tend to destroy the group character of the estates. This rule, however, meets with some criticism on the grounds that unrestricted saleability of assets induces the creation of equity, which in turn could release the government funds locked up in these estates for employment in further ventures of this kind.

To induce the state governments to fulfil the commitments laid down in the five year plans, the central Government advances them the entire cost of the estate in the form of loans. Cost of the land and buildings is provided by way of a loan repayable over a period of twenty years, and the rest of the expenditure incurred in developing the land and providing the utilities is met out of a further loan which can extend up to thirty years. These loans carry interest at the rate of 4 1/2 per cent per annum, which can be considered to be economic in the context of the ruling interest rate structure.

As stated earlier, in many other developing countries the picture is not very different from that of India, inasmuch as there too government industrial estates and not private or private-assisted estates play the major role. Thus, in Puerto Rico, the Puerto Rico

Industrial Development Company, a government organization, has been entrusted with the responsibility of improving certain plots of land, constructing buildings on them and renting or selling them to entrepreneurs. The programme is closely linked to the land use planning scheme of the Puerto Rico Planning Board which has over-all responsibility for land use and industrial zoning. In Jamaica, the Industrial Development Corporation, a non-profit government company, has established an estate in the vicinity of Kingston. The Corporation assists investors by selling factories or leasing them for five years - in the latter case the option with the lessees being to buy the factories at any time during the lease period. In Mexico, two industrial estates are being constructed - one by the Federal Electricity Commission which owns the land, and the other in the area of a new industrial township under development by the Government of Mexico. The Nigerian Department of Commerce and Industries has developed a small estate at Lagos as a pilot project with the idea of providing modern factory accommodation which can be taken on rent. The estate is well located and provides, among other things, the basic utilities. The department also constructs the factories and provides the necessary recreational facilities. The Sind Industrial Estate Ltd., a government corporation in Pakistan, organized in 1947, has established two industrial estates - one at Hyderabad near Karachi and the other at Mangopir on the outskirts of Karachi. The aim has been only to develop the land and provide the basic utilities. In East Pakistan, some industrial areas are being developed jointly by the East Pakistan Communications Buildings and Irrigation Department and the Industries Department. The estates mentioned, which are also for large industries, have been developed with loans obtained from the government, the management vesting in the Board of Directors representing the government and the industrialists. Rent subsidies for an initial number of years are in operation in the United Kingdom, Puerto Rico, Trinidad and Malta.

There is a move in India, particularly in cities like Bombay and Poona, to get local bodies like municipal corporations interested in taking up the construction of industrial estates, primarily because local problems of industrial location have assumed significant importance, such civic problems as sanitation, transport and so on, having become acute with the growth of demand for factory accommodation in these cities. The civic bodies normally raise their resources for financing their capital projects by the bond issue method, and this method can very well be utilized for financing the development of these estates. However, the return on such investments being uncertain, the bond issue, to be successful, must be actively supported by the government, institutional investors and local bodies such as chambers of commerce. The dividend could also be guaranteed by the government.

2. Private estates

In the developing countries, private sponsorship of industrial estates has understandably not assumed a significant role. In view of the fact that the setting up and the development of industrial estates involve large financial commitments with long gestation periods, it is natural that private entrepreneurs are not adequately motivated to invest in ventures of this kind. Furthermore, most of the developing countries suffer from shortage of both capital and entrepreneurship. In contrast to this, in the industrially advanced countries, like Australia, Canada, France and the United States, diverse forms of private agencies have taken the initiative to form estates, and in Japan this role has been mainly performed by co-operatives. The railroads have also played an important part in financing the development of industrial districts in the United States because of the obvious advantages that are to be gained in the growth of freight-yielding traffic.

In India, particularly in the State of Punjab, the development of co-operative and non-co-operative private industrial estates is gathering momentum, and even individual concerns - both limited liability companies and partnership firms - are setting up small industrial estates by constructing workshops on surplus land in their factory areas for the purpose of letting them out on rent. Punjab - the wheat granary of India - had a large number of wholesale traders, called arhatiyas, dealing in wheat when there were no controls and credit facilities from banks were in plenty. Now with the fixation of priorities, industrialization has received precedence over wholesale trading, and the arhatiyas are changing over to industry. The more well-to-do among them had lands in their name in the suburbs of towns and cities which they are now utilizing for constructing factories for themselves and setting up small industrial estates, consisting of about a dozen workshops, for their less affluent friends and relatives. These industrial estates receive practically no assistance from the government and their tenants usually function on an ancillary basis to the land-lord-industrialists and enjoy the advantages accruing on this account.

To some observers, these estates appear to be gross deviations from the universally accepted concept and norms of industrial estates, but this criticism does not seem to apply to the somewhat larger estates sponsored by private agencies and certain public bodies. In Gujarat, for example, a chamber of commerce has decided to sponsor an estate by assisting in the formation of a co-operative society. Its members have contributed to the society's "owned" funds, and have taken the sanction of the Registrar of Co-operative Societies to apply for a loan from a credit agency in order to develop land and construct sheds to the extent of twelve times (this is a special case - usually it is ten times) the "owned" funds of the society. The loan is repaid in instalments scheduled to keep with the construction work as it is completed. Private industrial estates can also be formed in Maharashtra provided the site and the industries to be set up are approved by the state government.

In India, private organizations such as co-operative societies or limited liability companies are encouraged to set up their own industrial estates. For example, if co-operative societies collect a sum of Rs.100,000 by way of equity, they may obtain loans up to Rs. 1 million repayable in annual instalments over a period of eight to ten years, repayments commencing one or two years after the completion of the estate. The co-operative banks may advance the required loans to such co-operative societies by seeking refinance, if necessary, from the Reserve Bank of India. The state governments assist such co-operatives in the acquisition of suitable plots of land under the respective land acquisition statutes.

As regards limited liability companies, if they subscribe to equity to the extent of say, Rs.100,000, it is not difficult for them to obtain loans up to a reasonable extent from those Small Industries Development Corporations and Industrial Development Corporations that have arrangements for granting such loans. The amortization period of such loans may extend up to ten years, repayments being on an annual basis commencing one or two years after the completion of the estate. The loans may be made available in suitable instalments to coincide with the various phases of the development and construction of the estates. This would ensure effective utilization of the funds lent, securing for the lender the advantage of supervision and control over the loan operations. Normally such financial proposals allow for adequate protection from the point of view of the lending institution inasmuch as the land and the other assets automatically stand charged in its favour.

3. Private assisted estates

The differences between a private and a private assisted industrial estate on the one hand, and a private assisted and a government industrial estate on the other, are often not clear, and it may be useful to dilate somewhat on the subject.

A private estate is promoted by a private agency which may itself own the estate, the entrepreneurs being tenants, or the entrepreneurs may by purchase be the owners of the individual plots and worksheds, the agency performing merely the managerial functions. In many cases, the procedure is to allow the entrepreneurs to purchase the individual plots and worksheds under hire-purchase arrangements with the private agency. In addition to its managerial functions, the agency is then also performing proprietary functions but only as long as the hire-purchase amount has not been fully paid.

A private agency differs from a private assisted agency in that it benefits from practically no concession or incentive from the government or the government agencies, although it may be the recipient of commercial loans and advances from them. Further, the individual units in the private estate may receive from the government or the government agencies fiscal and other concessions and incentives, and loans and advances (including hire-purchase loans) on concessional terms for meeting their fixed assets and working capital requirements. This may give the impression that the estate itself is being extended these facilities, particularly where all or the majority of the units are receiving them, but actually this is not the case.

A private assisted estate is operated by a private corporation. It may also extend outright purchase and hire-purchase facilities to its units, but the concessions and incentives granted by the government or a government agency may be directly extended to it, or to put it more correctly, through it to all the units.

A government estate may be run by a government-owned autonomous corporation or financed by a government investment bank.

The private assisted industrial estate is a compromise between the desire of the government that industrialists should construct estates on their own initiative, and the desire of the industrialists that the government should provide them with the necessary incentives to enable them to construct such estates, quite apart from the government incentives that the individual units, particularly the small units, receive. However, the schemes under which assistance to private estates is extended by the government or a government agency in the various developing countries, including India, are not many in number. This is in marked contrast to the number of incentive schemes that have been devised for the individual small entrepreneur.

The Government of India has recently made an arrangement with the Life Insurance Corporation of India, a government undertaking, under which the Corporation advances loans to meet the capital requirements for the setting up and development of estates by co-operative societies and joint stock companies. The co-operatives or the companies need to raise among themselves only 20 per cent of the capital for the purpose of the scheme, 60 per cent of the capital is to be provided by the Life Insurance Corporation, the balance of 20 per cent being advanced by the state government. The loan of the Corporation has to be repaid in thirteen instalments, the first instalment falling due three years after obtaining the first portion of the loan. The loan advanced by the Corporation needs to be fully covered by a state government guarantee, and carries 8 per cent interest with 1 per cent rebate for prompt repayment. An additional stipulation is that all general insurance of the estate (co-operative or company) and the occupant-units, including the insurance of machinery and equipment, should be placed with the Corporation's subsidiary, the Oriental Fire and General Insurance Company Ltd. The purpose for which loans under this scheme may be granted is the development of land and construction of sheds. Up to now, seven applications amounting to Rs.3,013,607 have been made under this scheme and six applications amounting to Rs.2,535,487 have been sanctioned by the Life Insurance Corporation. The Maharashtra Government is proposing to take full advantage of the scheme in the fourth Plan.

4. Foreign investments

Foreign investments in industrial estates, whether private, private assisted or government estates, can, like foreign investments in other industrial ventures, always be helpful to a developing country. Foreign investments can be either from private or public sources - in the latter case either from a foreign government or an international financial institution. Although up to now there have been quite a few cases in India of individual units operating in industrial estates entering into foreign collaboration agreements and successfully implementing the manufacturing programmes decided upon, foreign collaboration for the development of industrial estates has not as yet assumed sizable proportions. As far as foreign investments from private sources are concerned, the limited growth of such investments is most probably due to the high cost of supervision and administration involved and to risks in investing in a scheme in which a large group of entrepreneurs is engaged in different lines of production and is held together only by the strings of a co-operative society or a limited liability company, from which the entrepreneurs can easily withdraw whenever they desire. In spite of the difficulties of securing foreign private capital, some countries like Ireland, Malta, Puerto Rico and Singapore have attracted foreign enterprises to their industrial estates. And as far as foreign government financing of industrial estates is concerned, India is considering granting loans to Uganda and Tanzania to enable them to establish a few such estates.

There is scope for industrial estate projects to be financed by inter-governmental and international financing agencies. The Commonwealth Development Corporation (for Commonwealth countries), the European Development Fund of the European Economic Community (for countries in Africa associated with the E.E.C.), the Inter-American

Development Bank (for member countries of Latin America), the African Development Bank (for African member countries) can finance, partly or wholly, the establishment of industrial estates in the developing countries concerned. This could also be done by the International Development Association (IDA), the International Finance Corporation (IFC) (affiliates of the World Bank), through the governments or the national financial or industrial development corporations. The IDA is actually financing certain industrial estate projects in Pakistan. In November 1962, it provided a credit of $6.5 million to Pakistan, a part of which was intended to finance two industrial estate projects - one at Gujranwala and the other at Sialkot. The loan is for a period of fifty years and repayments start after eleven years. No interest is charged on the loan, but a nominal service charge of 3/4 per cent per annum is levied.

Assistance is given to a number of countries for pre-investment studies and planning of industrial estates under the United Nations Development Programme, that is, under the Expanded Programme of Technical Assistance and the programme of the Special Fund. Fellowships for advanced overseas training are also awarded to the nationals of various countries participating in the industrial estate programmes.

Despite all these arrangements, foreign investments play only a small role in the promotion of industrial estates in developing countries, and the main sources of finance continue to be the Government and municipal bodies and private investors.

5. Equity and working capital

The two elements involved in financing the development of an industrial estate are equity and working capital - their size determining the size and general lay-out of the estate. It is now proposed to discuss these two factors, equity being dealt with first.

Equity

Among the cost elements that have a direct bearing on equity, the first and foremost in order of importance are land cost and land improvement cost. Acquisition cost and cost of improvement of land constitute a sizable portion of the initial expenses involved in developing an industrial estate. Several factors affect these costs like location of land, type of land, time of purchase and so on. It is a normal feature in developing countries that land values rise rapidly when development takes place in the surrounding region, and very often governments have taken advantage of this: land purchased by them at low prices which has been found to be in excess of requirements after the industrial estate has been fully laid out, has been formed into an industrial area and plots in it sold to industrialists at considerably higher prices.

The items that come up next for consideration are the installation of utilities - water, power, roads, drainage, sewerage, streetlighting and the like - then the construction of factory buildings and of an administrative building in the estate, and finally the provision of accommodations for a bank, post office, first aid centre, canteen, watch and ward and other facilities and amenities.

The cost of constructing factory buildings depends on a variety of factors, chiefly the cost of materials and labour, the lay-out and design of the buildings and the requirements of the prospective tenants. There are also other factors to be considered. Thus, while obtaining finance for the development of land is difficult, financing the construction of worksheds in industrial estates is now in some countries an acceptable credit proposition. In fact, an element of competition among credit institutions is noticeable in this type of financing, presumably because of the assurance it carries of a better marketable security than improved land alone would offer. The estate authorities, therefore, need to ascertain the cheapest source of finance for construction of the worksheds if the estate is private or private assisted, or even if it is a public estate and the authority decides to obtain credit facilities for the work.

Financing the construction of factory buildings in industrial estates has been taken up on a fair scale by credit institutions in the United States. A private company or a corporation or a foundation sponsoring and developing an industrial estate can, after providing the initial equity, obtain financial assistance from mortgage banks, insurance companies, investment syndicates and real estate development and construction companies. The equity capital of the sponsor is usually used for improving the tract and installing the utilities, and the financial assistance of the mortgage and other banks is spent on the construction of buildings and even the installation of plant and machinery. The larger industrial districts have been developed in this manner. The major part of the Los Angeles Airport Industrial Tract has been developed with life insurance funds. Also, insurance companies have purchased industrial buildings in several industrial districts and leased them back to the manufacturers on a long term basis.

Working capital

Funds for meeting the working capital requirements of industrial estates would need to be sizable if all the purposes for which such estates are established are to be fulfilled. Industrial estates are not merely intended for providing factory accommodation to industrialists, but are also meant to perform a promotional role in the industrialisation of the country. This positive role, which consists of stimulating industrial entrepreneurship and modernising existing enterprises - in particular those working in unsanitary and congested premises - by steering or relocating enterprises towards modern buildings located on a common site where a variety of services may be provided, is often forgotten by those who consider that industrial estates are not necessary as a tool for industrialization if industrialists are offered incentives in other forms. Factories situated in compact areas offer economies of scale of production, efficiency arising out of specialization, opportunities for inter-trading, and they generally heighten the industrial climate as the entrepreneurs and the operating staff learn from one another and take advantage of one another's services. They offer industrial extension services and training as well as common service facilities such as central procurement of raw materials, development of common transport services and so on, and associations are organized for fire fighting, for example, and for effective representation of difficulties to authority.

For this positive role to be played effectively, the industrial estate requires working capital for the provision of financial, technical and managerial services. If it is decided to pass on the cost of such services to occupant-units, this should be done on a "no profit no loss" basis; otherwise the cost would not only suppress incentives but would even generate positive disincentives. The chart annexed gives a broad idea of the maximum working capital requirements of an industrial estate. Admittedly, every industrial estate need not feature all the facilities listed, but financial arrangements have to be made to provide those considered to be necessary.

As far as the managerial and technical services listed in the chart are concerned, funds spent on them may be recovered by the estate authorities from the trainees or the occupant-units, as the case may be. The initial expenses may be incurred by the estate authorities from a government or municipal loan or grant sanctioned to the estate, and recoveries may be made subsequently in the form of proportionate payments or subscriptions from units or fees from trainees calculated on a no profit no loss basis.

Regarding the financial services listed in the chart, they may best be rendered if the necessary arrangements are made with a commercial bank. The raw materials purchased by the estate authorities may be stored in a depot and hypothecated to the bank against accommodation, and their releases arranged according to the requirements of the occupant-units against deposit of their cost by the units in the estate's credit facility account with the bank. The estate may undertake direct loaning to units against the hypothecation of their finished goods stored in a common warehouse, and in turn obtain advances from the bank against the rehypothecation of such goods. Of course, the commercial bank would not be in a position to assist the estate authorities to issue guarantees, since a fund to support such guarantees would be necessary. For that the government or the municipal body would have to sanction either a loan or a grant. To satisfy the legal requirements, the estate should be a body capable of suing and being sued, and the estate authorities should have the necessary borrowing, lending, guaranteeing and mortgaging powers.

6. Stimulation of private projects by the government

It is often held that the formation of private estates can be accelerated if the government grants the individual occupant-units more concessions and incentives than those available to small units establishing themselves outside industrial estates. It is also considered that the formation of private assisted estates would be encouraged if, in addition to the occupant-units, the estates themselves are offered adequate concessions and incentives.

The incentives recommended for the dispersal of industries by the Committee on Dispersal of Industries of the Small-Scale Industries Board of India have a bearing on these observations. The Committee has divided the incentives into three categories as follows:

1. Provision of social overheads:
   (a) Provision of factory accommodation at concessional rates of rent for a period of three to five years; or its provision for the purpose of purchase either outright or on hire-purchase basis.
   (b) Provision of housing facilities.
   (c) Provision of common service facilities.

2. Supply of raw materials on priority basis.

3. Fiscal incentives:
   Exemption for five years from payment of sales tax, import duties, excise duties, octroi, municipal tax and income tax including corporation tax - the exemption to be made available by the process of refund.

4. Other incentives:
   (a) Subsidized electricity, tariff and water charges.
   (b) Credit facilities.
   (c) Machinery on hire-purchase.
   (d) Subsidy on freight charges.

The Government of India has provided relief from tax on capital gains where an assessee-unit sells its industrial property such as a factory building in an urban area, for acquiring a factory building at a lower price in a non-urban area. The latter area may not be an industrial estate. But in the case of a small unit it will almost invariably be an estate since no small unit would shift to a non-urban area unless an industrial estate is set up there.

There is another view on the subject which deserves careful examination. The starting point of this view is a rebuttal of the stand that both industrial estates and estate-units, which are mostly small, require fiscal and monetary concessions and incentives to exist.

It is claimed, at least in India, that private estates and units in them do not require concessions and incentives, but only timely and adequate loan facilities, if necessary at normal rates of interest, to meet their recurring and non-recurring requirements, that is, their working capital and fixed assets requirements, and if the Government can arrange for this, it will provide sufficient stimulation for the formation and growth of private industrial estates.

It is to be conceded that in the long run the government industrial estates would need to become private assisted and then private estates, and their fixed and working capital requirements, both estate-wise and unit-wise, would have to be met institutionally. Yet in the initial stages if the Government takes this stand rigidly, and in the process does not perform even residuary functions - one of them being that of a lender or guarantor in the last resort - the formation and development of private estates will no doubt suffer. For it cannot be said with certainty that credit institutions will accept, if provided with an adequate cover for the risk by way of guarantee, to finance estates and units which they consider sub-marginal; in fact some of them would not care to finance at all despite an adequate risk cover.

Nevertheless, no opportunity should be lost to ensure that finance is obtained from the credit institutions at least in respect of those estates and units which they consider good credit risks, either with the extra risk cover or otherwise. This will mean less Government funds locked up. In order further to reduce the locked up funds, the Government can, by legislation, bring in also the municipal bodies (and in India, the zilla parishads or district councils) as guarantors and lenders, occupying the last but one position in the queue of guarantors and lenders, the last position being held by the government itself.

Similarly, the estate authority could be brought in the position before that of the municipal body for the purpose of meeting the fixed assets and working capital requirements of individual units, provided the estates are made bodies that can sue or be sued and have borrowing, lending, mortgaging, guaranteeing and underwriting powers.

Finally, the credit institutions could be first in the queue for lending to, and guaranteeing on behalf of, both the industrial estates and the units in them. The position would then be that if a loan to a unit is not forthcoming from the credit institution despite the estate's guarantee, the unit would approach the estate itself for the loan. Similarly, if a loan to an estate is not forthcoming from the credit institution despite the municipal body's guarantee, the estate would approach the municipal body for the loan. The estate's loan to the unit would then be guaranteed by the municipal body, and the municipal body's loan to the estate guaranteed by the government.

The guarantees could take two forms. They could either be guarantees of loans or underwriting of share issues if the estates or units are limited liability companies. In order further to diffuse the liability, the guarantee to the credit institution by the estate and the guarantee to the credit institution or the estate by the municipal body, may be insured with the municipal body and the government respectively, and the municipal body may in turn re-insure its insurance liability with the government. This could apply to the underwriting obligations also in the form of sub-underwriting and re-underwriting of issues. The sanctioning or refusal of a loan by the credit institution would need to be completed in a week, while the guarantees would have to be automatic, although they need not provide full cover. The percentage of guarantee cover could be higher for defence-supply units and units connected with agriculture or agro-industries, the estates with such units being in the majority. The percentage could also be higher where the units and estates serve the ends of export promotion and import substitution, and for rural and suburban or semi-urban estates and the units in them. It could likewise be higher when the industrial estate is situated in the free zone of a port such as the type of zone India has at Kandla port, or proposes to have at Haldia port.

The advocates of this scheme consider that with the procedure suggested, not only will the sanctioning of loans be considerably expedited, but because of the guarantees, such loans would also be need-based, that is, commensurate with the needs of the estates and the units. Furthermore, there would be diffusion of liability, and owing to the guarantees again, the funds required for operating the scheme from the level of the government downwards, would be small; the government itself requiring nominal funds to honour its guarantee and insurance commitments, and the municipal body or the estate authority obtaining funds to support its guarantee and insurance commitments through the issue of bonds, the repayment of principal and payment of minimum dividend being guaranteed by the government. Finally, the protagonists consider, the scheme will institutionalize the sources of credit of the industrial estates and the units located in them, the credit institution's coverage of loans to such borrowers widening on account of the adoption of a liberal approach which the guarantees would make possible. The government would be required to extend no direct assistance at all, unless it decides to grant concessional foreign currency loans to importing units against a loan from, say, the I.D.A., repayments being made by exports. Because of their guarantee commitments, the municipal body and the estate authority, being in the proximity of the estate and the units respectively, will, like all good guarantors, maintain a watch on the loans of the credit institution. The interest charges and guarantee fees levied on the borrowing estate or unit would not be heavy if deliberately kept low by the participating lending and guaranteeing institutions, which would be possible since the risk borne by each of them would be considerably reduced and diffused; in fact the guarantee cover furnished by the government and also, if possible, the municipal body, should be free of charge. The credit institution may not always have funds to spare for financing both the establishment of an industrial estate and its day-to-day transactions. In such a case, the government should extend adequate refinance facilities to the credit institution so that its assistance to the estate and the units in them does not suffer owing to paucity of funds at its disposal.

II. FINANCING OF ESTATES ACCORDING TO LOCATION

Urban, suburban or semi-urban and rural industrial estates

As is to be expected, the popularity of urban industrial estates, both in the developed and developing countries, is on the increase (149 such estates are expected to be established in the Fourth Plan in India). This is so because of the numerous facilities available in such locations, which may not be available to that extent to the semi-urban and rural industrial estates, particularly for the production of the more complex types of goods. In view of the development effort made by most central and local government authorities, some elementary facilities like water and roads are likely to be found in rural areas, but others, such as power, trained labour and markets will usually be lacking. Even when the market for certain goods is essentially in the rural areas, for instance for agricultural implements, manufacturing is usually undertaken in urban areas because of the availability of skilled and relatively cheap labour and the proximity to markets for raw materials. The most important obstacles to the establishment of industrial estates in rural areas are the absence of investors interested in the development of such estates, and of entrepreneurs interested in functioning there. Because of this, in India, rural industrial estates have been developed almost entirely by the state governments, and the few industrialists-tenants functioning there have been induced to do so by various promotion measures and operational subsidies such as rebates on electricity and other charges. Such subsidies have understandably to be sizable to enable the entrepreneur to maintain, for example, some specialized and skilled workers and supervisors on emoluments higher than what would be payable in cities, or to pay for the higher cost of transport of raw materials and finished products owing to the estates being situated in relatively remote areas.

However, notwithstanding the above-mentioned obstacles, the necessity to industrialize rural areas, in particular through industrial estates in a country like India cannot be overlooked, primarily because of the social content of such a programme. India is a country with 564,718 villages (1961 census), which have a population of 359 millions out of a total population of 439 millions in the country. It is only right, therefore, for such vast multitudes to demand and expect a share in the process of industrialization set in motion in the country. The Government has recognised this and is considering the feasibility of launching a programme in the fourth plan of establishing rural estates at 700 growth centres in the country. But a lacuna in the programme would need removal before its success is assured and the factory sheds in the estates do not remain vacant. For it can be said straightaway that no enterprise will go to a rural estate unless it is sufficiently compensated for the disadvantages it will suffer on account of its defective location. The Punjab and Maharashtra Governments have realised this to a degree, but the incentives provided by them are insufficient. The Punjab Government grants a 15 per cent rebate on electricity charges to units in rural estates, which is higher than a similar concession granted to units in urban estates, and the Maharashtra Government pays for the acquisition of land required by co-operative estates coming up outside Greater Bombay, which is thereafter made over to the co-operative on a thirty-year extendable lease and 5 per cent per annum rental. The other terms of this scheme are: (a) provided the society raises 20 per cent of the total cost of the project by way of share capital from its members, the Government will grant a matching loan of a like amount without interest returnable after fifteen years in one lump sum, on the condition that 1/15th part of the loan amount is credited to a sinking fund every year (this is done by the Government actually subscribing to the share capital of the society to that extent), and (b) if for the remaining 60 per cent of the total cost of the project, the society obtains a loan from the Life Insurance Corporation under the scheme described earlier,3/ the Government will stand guarantee for the loan. Although this scheme applies also to estates established or coming up in Nagpur and Poona, it is essentially meant for rural estates. Such estates have been established at Kolhapur, Kurla, Ichalkaranji, Sangli, Nanded and Parli.

Rural industrial estates have recently come up at the following centres in India owing to the centres and their neighbouring areas being classified as "Rural Industries Projects" under a scheme sponsored by the Planning Commission: Anantapur, Kathua, Hiranagar, Anantnag, Shopian, Kozhikode, Durg, Rajnandgaon, Bhilai, Hubli, Malerkotla, Kangra, Sunam, Dehra-Gopipur, Phulpur and Solan. The coverage of a rural industries project extends practically to the entire district in which it is located less the headquarters town or city, and the units located in them are granted hire-purchase facilities for the acquisition

---

3/ See part I, section 3.

of capital assets extending up to a period of twenty years. The units located in the rural industrial estates in these projects also enjoy these facilities.

The necessity for developing semi-urban and suburban industrial estates arises primarily because of the concentration of industries in the larger cities where, due to the growth of factories in residential areas, the localities become unhealthy. The dispersal of industries to semi-urban areas without attracting them into industrial estates is no doubt possible, but this should be avoided if the future generations of people in these areas are not left to face the situation which the residents of the larger cities from which industrialists are being persuaded to move out, are at present experiencing. The dispersal of industries to suburban industrial estates is gaining momentum in the areas of Bombay and Poona, more or less under state patronage. The expenses incurred on the transfer of machinery and equipment from the city areas falling within the development plans of the Bombay Municipal Corporation, to the suburban estates in course of development by the Corporation, is in part borne by the latter. The Bombay and Poona municipalities have schemes to develop suburban industrial estates to reduce congestion in the city areas. Sites approved by the Government are developed by these municipalities into estates, and thereafter the plots are leased to small industrialists or sold outright to them or on hire-purchase basis for construction of sheds. The industrial estate at Hadapsar (Poona) has been constructed in this manner. The following suburban industrial estates have been developed in the Bombay and Poona areas either by the Government or the Maharashtra Industrial Development Corporation or the municipalities: Goregaon, Hadapsar, Kandivli, Kurla, Lonavala, Malad, Marol and Wagle.

The distribution according to location of 102 functioning industrial estates in India, is shown in the following table.

Distribution of 102 functioning industrial estates according to location

	No. of Estates	Total Area		Average area per estate	
		Acres	Hectares	Acres	Hectares
Urban	57	2,183	884	38.3	15.5
Semi-urban	29	646	262	22.3	9.0
Rural	16	148	60	9.2	3.7
Total	102	2,977	1,206	29.1	11.8

The data relates to 30 September 1964.

Urban: Cities and towns having a population of over 50,000.

Semi-urban: Towns having a population of 5,000 to 50,000.

Rural: Villages having a population less than 5,000.

III. FINANCING OF ESTATES ACCORDING TO TYPE OF INDUSTRIAL ACTIVITY

Functional, composite and ancillary industrial estates

Composite industrial estates, where units engaged in many different industries are operating, are most common not only in India but also in other developing countries, though of late efforts are being made at some places for the development of functional industrial estates. The estates sponsored in India by the state governments are mainly composite industrial estates, though private endeavours for the development of functional estates in the Punjab - where, for example, the units would be manufacturing radios, bicycles and other products - are now in evidence, and some estates of this type have already come into existence. Proposals for setting up functional estates for the manufacture of autoparts, scientific instruments, electric meter components, ceramic goods and so on are under examination by some of the state governments.

The scope for ancillary industrial estates is considerable. It is frequently said that the future of small industries lies in their working as ancillaries, not to one or two giant industrial concerns, but to a number of them, as is the present trend in the United States. Two types of ancillary industrial estates can be envisaged. One formed with the initiative and assistance of individual large industrial undertakings, essentially to meet their needs of manufactured components, parts and stores at lower cost, and the other formed by the small industrialists themselves, engaged primarily in the execution of firm orders of a number of large undertakings, instead of manufacturing for the general market. Ancillary estates of the former type have been formed by the Hindustan Machine Tools Ltd., Bangalore and the Heavy Electricals (India), Ltd., Bhopal - both public sector undertakings. There is much scope for the Government to set up ancillary industrial estates in India owing to the active role it has assumed in certain strategic spheres of industry. The Hindustan Motors Ltd., a private enterprise, has a programme to set up an ancillary industrial estate near Calcutta.

The Indian pattern of financing an ancillary industrial estate set up by a government undertaking like the Hindustan Machine Tools Ltd., Bangalore, is unique inasmuch as the entrepreneur who wishes to function there has to provide only 20 to 30 per cent of the capital investment required, the rest being met by the large undertaking concerned and the various agencies associated with the programme of assisting small industries. Thus, the government authorities connected with the large project provide developed plots of land, constructed factory sheds and other facilities. The banking office situated in the estate caters to the day-to-day financial requirements of the operating units. As the tenants are selected after very careful scrutiny of their background and qualifications, the safety of the equity investment of the government is more or less assured. Owing to the shortage of raw materials, the parent large undertaking provides the units with raw materials, especially in cases where the price and delivery schedule are rigidly stipulated. Such raw materials are even supplied on deferred payment terms which provide an opportunity to the tenant-units to set off the cost of raw materials against the price of the goods supplied. The tenant-units are, however, allowed to procure their own raw materials where possible, so that they do not become totally dependent on the large undertaking.

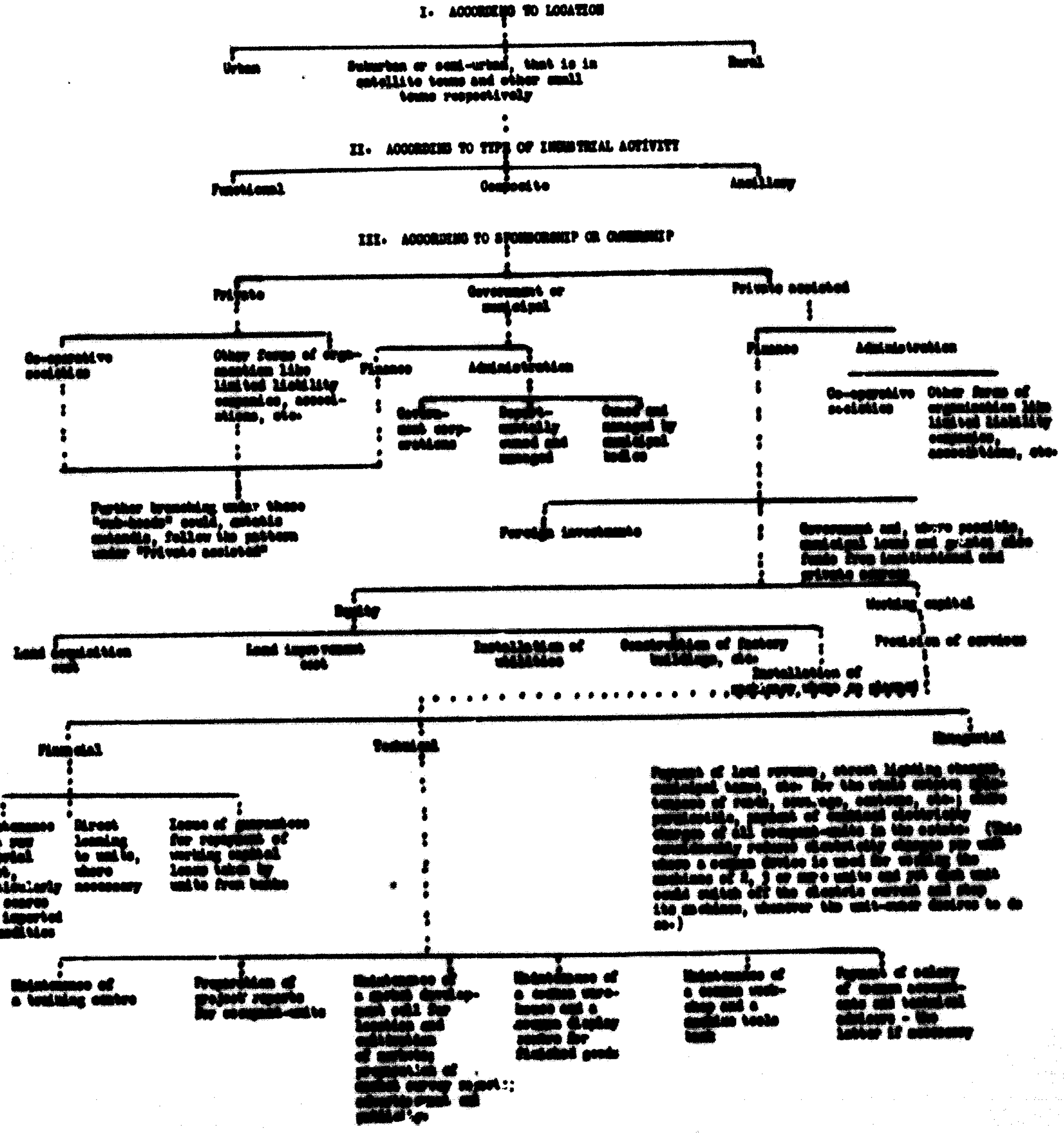
IV. CONCLUDING REMARK

Summing up, it may be said that although up to now the industrial estates in the developing countries, including India, have by and large been developmental projects launched by the governments, there is much scope for private agencies gradually to take over this duty. With proper planning and close co-ordination among the concerned agencies and departments, there is no reason why this should not be possible.

Meanwhile, of course, the establishment of government and of private assisted estates, with the concessions and incentives extended to them, should continue and even expand, so that industrialization gains the required momentum. The industrial estate as a technique for development has gone past the stage of doubt and dispute, and it is now left to the developing countries to make ample use of this technique, so that under-industrialization in their areas becomes a thing of the past.

ANNEX

TYPES OF INDUSTRIAL ESTATES



Selected Publications

1. Industrial Estates in India by Dr. P.C. Alexander, Asia Publishing House, Bombay, 1962.

2. Industrial Estates - Tool for Industrialization by Dr. W. Bredo, The Free Press of Glencoe, 1960.

3. Report of the Sub-Committee on Industrial Estates, Government of India, 1960.

4. The Role of Small Enterprises in Indian Economic Development by P.N. Dhar and H.F. Lydall, Asia Publishing House, Bombay, 1964.

5. Industrial Estates: Policies, Plans and Progress by the Centre for Industrial Development, Department of Economic and Social Affairs, United Nations, 1966.

8.4.74