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Impact of Fiscal Incentives on MSMEs' Performance in Gujarat

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Abstract

Fiscal incentives act as an instrument to enhance growth of industry and in turn, that of economy is a debatable issue all over the world. Many countries and many governments have burnt their hands in imposing or reducing tax rates and other benefits. The impact of different fiscal incentives on various corporate decisions is not certain and varies from country to country and time to time. Sometimes it has been found that such fiscal incentives work best when it is coupled with other factors like political stability, infrastructure facilities etc. In addition, many researchers have viewed that such fiscal incentives results in to nothing but just raises the burden of the government. The present study attempts to find out how industrial sector particularly MSMEs view these incentives on their overall impact.

Keyword: MSMEs, Fiscal Incentives, Impact of Fiscal Incentives

Introduction

P. C. Mahalanobis, the father of second five-year plan in India, which assigned a special role to small scale sector, advocated a transitional phase in which preference should be given to the small scale and household industries, and visualised the need for such preference to decrease over time. According to him, "It was envisaged that eventually a gradual and steady changeover would be made to move to efficient forms of production by increasing use of machinery driven by power". Exemptions/incentives to corporate sector (both large and small and medium) have been an integral feature of India's fiscal policy. In order to undo the setbacks suffered during British colonial period by craftsman and rural artisans who constituted the backbone of India's traditional and self-sufficient economy, after independence, the policymakers' task was to make them once again stand on their own feet. The rationale for protection of small-scale sector, first articulated in the Industrial Policy, 1948 stating that "the aim of the policy will be to ensure that the decentralize sector acquire sufficient vitality to be self-supporting". The policy was designed to focus on promotion of employment and wide dispersal of industrial growth avoiding urban congestion as also the Gandhian philosophy of supporting village economy.

The policy was implemented through various measures of supports to small-scale sector during the second plan period and thereafter. In this concessional tax treatment played a prominent role. In addition to tax incentives, MSMEs were protected with a policy of reservation over wide range of products to the exclusion of large-scale producers. The other types of incentives like capital subsidy, concessional credit, rebate on sale of products, purchase preference in government procurements etc. were also offered. Looking at their potential to generate employment and contribution to GDP, there was a consensus in favour of such support. With the increasing

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globalisation and uncertain economic parameters, the degree of protection is declining in one or the other sphere. Therefore, in present scenario, SSIs have to sustain themselves through their competitive strength and face competition not only from domestic large enterprises, but also from multinationals. Moreover, in a response of it, the focus of policy is for infrastructure development, product differentiation in terms of quality and standardisation, price competitiveness, pollution control, technology up gradation, patent law, training and development etc. Therefore, the ultimate objectives behind fiscal and other incentives are to improve their competitiveness. Further, the changes in the trade policies, especially reduction in tariffs and removal of quantitative restrictions (QRs) have brought fierce competition for small enterprises.

The other side of this coin is that this reservation and tax incentives has brought criticism from time to time from observers of India's economic performance and progress. Some economists and researchers have empirically proved that the reservation (approximately 800 industrial items) given to MSMEs and various fiscal incentives like tax exemption have not been beneficial either for the economy or even for the small-scale sector. Many researchers and economist viewed that the protection and various fiscal incentives given to MSMEs at the cost of large scale sector was one of the reason for India's poor performance during 60s and 70s. On top of this, these incentives are substantial cost to exchequers. Moreover, there is no concrete evidence about employment created by this sector, and even if it would have been created, such employment was created at low levels of income and thus contributed to persistence of poverty across country. Persistent criticism, skeptical views and more importantly economic liberalisation since early 90s led to the rethinking on the policy of MSMEs reservation. With opening up of the Indian economy, the ambit of reservation to SSIs/MSMEs has been progressively reduced (however, still some remain and many have been modified from time to time). Looking at their negative effects on revenue (at least for short time), these fiscal incentives should be subject to cost- benefit approach.

Review of Literature

Pizzacala (2007) found that in Australia, policy makers have failed to properly identify and target relevant tax concessions for the SME sector. The tax structure and incentives are seemed to be ad-hoc and reactive in nature. From the survey and analysis, author found that more efforts need to be done to make the SMEs concession simpler to understand and less costly to access. There should be appropriate medium to longer term tax policy. This can be achieved by lowering of the overall tax burden for SMEs, having more focused approach of developing appropriate SMEs tax strategies rather than tax compliance, increasing investment tax incentives and initiatives for SMEs, encouraging retention of taxable profits and access to higher R & D concession rate. Long (2006) has examined the performance of Vietnam's SMEs and policy issues and found that even though from time to time government has initiated reform programs, SMEs face obstacles like lack of fund, easy access to formal credit, inefficient land legal framework, lack of information, low level of international access etc. Also lack of credit and rigid regulations result in to lack of capital and consequently outdated technology, low level of skill and weak management. The finding of the survey reveals that the policy makers should work towards information access, finance, technology, incentives to enhance skill etc. Spain's corporate tax policy is considered the most generous among the OECD Countries, but survey says that it is little used by the firm. Corchuelo & Ros-Martinez (2004) have thoroughly analyzed this matter and their finding says that size of the firms does not have any impact for the use of tax incentives for R&D projects. However, very large size firms use them extensively. Report of Task force of Prime Minister of India, MSMEs, GOI (2010) states, besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation. Although Indian MSMEs are diverse and heterogeneous group, they face some common problems like lack of availability of adequate and timely credit; lack of access to global markets; inadequate infrastructure facilities including power, water, roads, conveyance etc.; lack of skilled manpower for manufacturing, services, marketing and lack of access to modern technology. Das (2008) critically reviewed the performance and policy concerning the micro, small and medium enterprises (MSMEs) in globalizing India since the early 1990s when economic reforms were formally introduced. An analysis of relevant performance variables clearly indicates an unimpressive fare, with classic constraints like dwindling access to credit and poor product quality persisting.

As per the report by SIDBI (2008) Indian MSMEs do not have easy access to a well-defined eco-system of risk capital availability. To fill this gap, India needs a very thorough, properly designed and adequately resourced risk capital regime. However, it should be customised by taking in to account ground realities of Indian MSMEs, because merely creating financial institution may not serve the purpose. The systems, rules, procedures and practices governing the appraisal, granting of capital, monitoring need to be redesigned carefully. Further, the study suggested that the government needs to catalyze this activity by removing the procedural complexities and making the set of fiscal incentives performance oriented. Bagchi *et al.* (2007) finds out that the measures to help the MSMEs should focus on promotional measures, particularly making institutional credit available on reasonable terms. Clusters can play important role for survival and growth of SMEs. It has been observed in clusters formed in Italy that they have evolved in to globally renowned manufacturing bases for a variety of products. The reason for the success of Italian clusters is their ability to innovate and modernize and attune to changing market conditions. Gomes (2001) has analysed the performance of Italian clusters and suggested to adept for Indian SMEs. In Italy, SMEs account for over 40% of the Gross Domestic Product (GDP) and are described as spine of Italian economy. Besides, SMEs in Italy, with less than ten employees represented 96 percent of industry. The reason behind such a good performance of clusters are close proximity of raw material suppliers, equipment suppliers, component producers, sub-contractors and final good producers, together with a combination of both intense rivalries between firms and cooperation in producers' association drive the whole cluster forward. As per the author's observation, the major difference between clusters in Italy and India is that former has secured competitive advantage in supplies to niche markets by competing mainly based on quality, design, speed of innovation and speed of response. In India clusters at Tamil Nadu, Andhra Pradesh and other places have achieved success in exporting basic products but they have shown little capacity to move in to higher value market niches. The important difference between Italian and Indian clusters is that Italian clusters have innovated and displayed an ability to adapt to markets and international competition; while many Indian firms have low productivity due to use of traditional tools, old techniques and outdated technology, poor labour productivity and bottleneck of infrastructure in product lines. In India by focusing on quality standards and technological up gradation, Indian clusters can network with overseas clusters and can become leaner and better to handle market competition.

A research by Awasthi (2000) presents economic reforms and industrialisation in Gujarat based upon statistical evidence. In Gujarat, the growth was not spread evenly across various regions in Gujarat and was concentrated in regions within the states. As government of Gujarat has offered various fiscal and financial incentives to divert industrial investments to backward areas, it is expected to channelize more investment in backward regions. The geographical spread indicates that the investments have flowed mostly to regions that have proximity to some major industrial concentrations, with the advantage of forward and backward linkages, or are on major trunk route or near the ports. Research by Tulsidhar & Rao (1986) have found that reduction in taxes and other incentives attract capital in initial stage but policy lead to inter-state competition and in the long run all the states will have foregone substantial amount of revenue without remarkably altering their share in total industrial investment. Agarwal & Sondhi (1987) studied and analyzed section 80HH of the Income Tax Act, which provides for an allowance for expenditure incurred in the industrial development of the backward areas. The report concludes that the tax incentive for which section 80HH provides does not entail substantial loss to the exchequer. It is required to rationalize backward area allowance and its harmonisation with partial tax holiday available under section 80I. A research article by Bagchi (1980) discusses what justifies the change in base for computation of tax holiday profit from capital to income. As per the article an incentive related to profit and not capital can be less biased in favour of capital intensity. The impact which tax incentive has on techniques of production depends on the availability of alternatives in the field of technology and it may result in capital-labour substitution altogether within the existing available technology. It has been found that the system of incentives in India rather than helping to correct distortions in factor prices (so relative scarcity of capital and abundance of labour are duly reflected in their relative prices) works in opposite direction. A profit linked tax incentive promotes efficiency. Shrinivasan (1980) studied the impact of two types of incentives namely development rebate and backward area subsidy.

He chose the period 1968-1973 and studied electrical, chemical and pharmaceutical industry. In his research, he studied the impact of development rebate on private corporate investment, borrowing and dividend; and the impact of backward area subsidy on project selection and project location.

Data and Methodology

Rationale of the Study

The impact of different fiscal incentives like tax exemption/ rebate, interest rate subsidy, cash subsidy, export and import duty exemptions etc. on various corporate decisions like less borrowings, expansion, modernisation, improved liquidity of business etc. is not certain or in other words it varies from country to country and also from time to time. The sector has suffered many challenges such as reduced exports as well as domestic orders, piling up of inventory, stretched credit period of receivables, shortage of working capital, inability to service term loans etc.[1]. The reason behind this is that there are inbuilt fiscal and legal factors which push horizontal growth and discourage seamless growth from micro to small to medium enterprises. For this prevalent informality, there is a need to bring reform in legal and taxation regime and to design special fiscal and tax incentives to encourage vertical growth and building of scale. Cluster development is also one of the solutions for the same.

Despite its commendable contribution to the economy, this sector does not get the required support from concerned government department, banks and financial institutions and corporate; which is a handicap in becoming more competitive in national and international markets. Despite consisting more than 80 percent of total number of industrial enterprises and supporting industrial development; many MSMEs in India are facing problems such as sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, shortage of capital, and most affecting turbulent and uncertain market scenario. The problems faced by MSMEs are absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production facility, ineffective marketing strategy, identification of new market, constraints on modernization and expansion, non-availability of highly skilled labour at affordable cost, follow up with various government agencies etc. Despite such problems, MSMEs have grown by leaps and bounds and have caught fancy of corporate India. The evidence is that MSMEs have performed better than most large organisations between 2001 and 2006. For instance, net profit of companies with a turnover of Rs. 50 to Rs. 100 crores appreciated by over 700 percent in that period; compared to an increase of over 150 percent in the net profit of large corporations. During the same period, MSMEs also outperformed large corporations in net sales and operating profit[2].To empower MSMEs, it is necessary to support, educate and empower them, The government is planning to increase financial assistance for Micro, Small and Medium Enterprises (MSMEs) in form of aids for technological up gradation, cluster initiative[3] and bridging the financial gap.

Objectives

To compare and analyse the effectiveness of various incentives for financial and strategic decision of the MSMEs.

Sampling

To study above mentioned objective it was decided to survey and interview managers/owners of MSMEs firms in Gujarat to get the knowhow about how fiscal incentives affect corporate performance. The data has been collected from a total of 216 industrial firms which are surveyed and interviewed. For that; industrial units of GIDC[4] of Gujarat were visited.

Variables Studied

1 Bhatt O P (2009) ET and MSME Dossier

2 http://www.msmementor.in/MSME_Sector_India.asp

3 The concept of cluster development offers new insights in to the potential role of MSMEs. It is estimated that there are around 400 clusters in India. A cluster may be defined as a local agglomeration of enterprises (mainly MSMEs) which produces and sell a large range of related and complimentary products and services. An example can be a localised leather industry, including leather tanning units,leather finishing units, leather goods producers, leather garment manufacturers, designers, sub-contractors, merchant buyers and exporters.

4 MSMEs units

For MSMEs, parameters like list of direct and indirect incentives given by Government of India (GoI) and Government of Gujarat (GoG) are studied. A variety of incentives provided are as given below.

Direct fiscal incentives such as interest subsidy (7 percent for micro and 5 percent for MSMEs, 1 percent extra for young/women entrepreneur), venture capital assistance (max. Rs. 10 crores), cash subsidies, backward area subsidy, investment subsidy for establishment of new units, rehabilitation subsidy were studied as independent variables. Also, indirect fiscal incentives such as 50 percent reimbursement of fees for skill enhancement (formal training, workshop attending etc. for a max. 25 employees), 50 percent of cost reduction of original for quality certification (ceiling of Rs. 6 lakhs), 50 percent grant of original cost for technology enhancement (max. Rs. 1 crore including royalty payment), assistance @ 50 percent subject to maximum Rs. 10 lakhs for patent, 50 percent cost of energy/water audit conducted for conservation purpose(reimbursement basis), incentives for packaging designing purpose, assistance for participation in international trade fair, support for the vendor development, electricity duty exemption for a period of five years for the cluster associations if they set up common power plants or common waste recycling plants or common affluent treatment plants, quality up gradation scheme for a maximum of Rs. 25000 per scheme as grants from the government and overall Rs. 1 lakh per SSI firm's (ISO 9000 and 14000), energy and water conservation assistant, cash subsidy for assessment of water consumption, assistant for environment management (up to 25 to 50 percent of fixed capital investment: ceiling Rs. 10 lakh per project), scheme for 'Green' practices and environmental audit (up to 25 to 50 percent of fixed capital Investment), need based support to R&D institution and rehabilitation of sick firms (interest subsidy @ 5 percent per annum limited to Rs. 10 lakhs per year and experts' advice) have been studied for the MSMEs firms.

Questions were asked how different fiscal incentives impact on various financial and location decisions of the firms. In addition, questions were asked which types of incentives are important for the firm. Lastly, owner/managers of MSMEs were asked about problems faced by them to avail different types of incentives. In open ended questions MSMEs mangers/owners were asked to give their opinion for various incentives and their impact on economy.

Data Analysis and Findings

Profile of MSMEs

For analysis purpose industrial areas such as Vatva, Odahav, Naroda, Kathawada, and Kalol of Ahmedabad region; Sayan, Delad, Pandesara, Udhana Udyognagar, Hazira, Bardoli, and Tarsadi of Surat region; areas near to Navsari and Valsad such as Sarigam, Vapi, Valsad, Billimora, and Daman of Valsad region have been considered.

Table 1: Location of the MSMEs Unit

Region	*Frequency*	*Percent*
Ahmedabad	42	19.4
Surat	91	42.13
Valsad	83	38.42
Total	216	100.0

From Table 1 it can be seen that out of total 216 surveyed MSMEs units, 91 were from places of Surat; 83 units are visited and surveyed from Valsad district, remaining 42 units are from Ahmedabad in Gujarat.

The categorisation of MSMEs in terms of their Investment in Plant and Machinery indicates that majority (46.8 percent) of them falls in the investment group of Rs. 25 Lakhs to Rs. 5 crores which indicates that majority are medium size firms. There were total 18.5 percent of MSMEs had investment in the category of above Rs. 5 crores to Rs. 10 crores which shows reasonable proportion in terms of higher investment. Rest of them (27.3 percent) had investment less than Rs. 25 Lakhs. There are only 16 MSMEs which are in the service and trading activity; out of total 16 firms; 10 firms' investment is below Rs. 10 lakhs while 6 firms have investment in the range of Rs 0.10 crores to Rs. 2 crores. The above table reveals that only 16 units are in service and trading activity and rest 200 units falls in the manufacturing sector.

Looking at the investment profile of MSMEs; it can be seen that majority were in the intermediate category. In comparison of investment profile; turnover outcome is really impressive as total 89 MSME (41.2 percent) units' turnover is more than Rs. 1 crore.

Table 2: Investments

Investment in Plant and Machinery (Rs. in Crores)	Frequency	Percent	Investment in Equipment (Rs. in Crores)	Frequency	Percent
No Investment	16	7.4	No Investment	200	92.6
<Rs. 0.25 crore	59	27.3	<Rs. 0.10 crores	10	4.6
Rs. 0.25 to Rs. 5 crore	101	46.8	Rs.0.10to Rs. 2 crores	6	2.8
Rs. 5 to Rs. 10 Crore	40	18.5	Rs. 2 to Rs. 5 crores	0	0
Total	216	100.0	Total	216	100.0

Table 3: Turnover of the Organisation

Amount (Rs. in Crores)	Frequency	Percent
<Rs. 0.25 crores	37	17.1
Rs. 0.25to Rs. 0.75 crores	65	30.1
Rs. 0.75to Rs. 1 Crore	25	11.6
>Rs. 1 Crores	89	41.2
Total	216	100.0

Table 4: Procurement of Funds

Type of Sources	Yes	No	Total
Bank Loan	202	14	216
Equity Capital	20	196	216
Relatives/Friends	81	135	216
Venture Capital	6	210	216
Own Funds	182	34	216

The pattern for procurement of funds indicate that majority of MSMEs relied on bank loan, own funds and relatives/ friends to avail the funds. Despite considerable efforts of government of India, government of Gujarat and private players, only six units have procured their capital from venture capital.

Table 5: Application of Funds

Application of Funds	Yes	No	Total
Development	144	72	216
Expansion	120	96	216
R&D	32	184	216
Working Capital	156	60	216
To Repay Debt	202	14	216
Dividend	4	212	216

In terms of application of funds, 156 units said that they use funds for working capital purpose. 144 and 120 respondents considered the use of the funds for development and expansion purpose respectively. There was a significant number of MSMEs units (202 units) that use it for repayment of debt purpose. One good sign of above analysis is that 32 units are using these funds for R&D purpose. In short, the results are mixed. The trend of application of funds says that government should take initiative to encourage the MSMEs for more and more initiatives for R&D, development, expansion purpose etc.

Rank was calculated by the weighted average method for each factor. For example for first variable called development, 41 respondents assigned 1st rank while 36 respondents gave rank 2 and so on. To find out the score of the rank weighted mean was calculated by assigning 6 value to the highest factor and 1 value to the lowest factor.

Table 6: Rank of the Application of Funds (1 to 6)

(Highest-6 to Lowest-1)

	1	2	3	4	5	6	Total	Weighted sum	Weighted Mean	Rank
Development	41	36	82	53	3	1	216	920	4.26	3
Expansion	50	28	34	94	7	3	216	875	4.05	4
R and D	12	7	10	6	175	6	216	521	2.41	5
Working Capital	65	65	46	38	2	0	216	1027	4.71	1
To Repay Debt	51	82	35	22	24	2	216	972	4.5	2
Dividend	1	0	7	1	3	202	216	245	1.14	6

Table 7: Rank given to the Obstacles faced by MSMEs to Grow and Develop (1 to 10)

(10-Highest to 1- Lowest)

	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*Total*	*Weighted Sum*	*Weighted mean*	*Rank*
Obtaining Finance	41	44	42	26	20	10	7	11	6	9	216	1576	7.30	2
Obtaining Finance at cheaper rate	50	41	30	29	18	13	14	8	9	4	216	1587	7.35	1
Low Profitability	5	15	11	31	28	27	30	28	10	31	216	1048	4.85	6
Getting Permissions from the government	15	17	30	16	28	29	21	21	17	22	216	1171	5.42	5
Acquiring Skilled Labour	31	31	17	17	21	15	16	24	32	12	216	1257	5.82	4
Acquiring raw material	1	10	14	14	20	23	19	27	48	40	216	838	3.88	10
Difficulty in finding the market for finished goods	22	9	16	17	27	16	22	26	27	34	216	1044	4.83	7
Poor quality of goods and services	1	12	12	23	17	30	33	32	27	29	216	938	4.34	9
Conveyance Problem	4	13	17	20	15	33	33	29	31	21	216	990	4.58	8
Availability of Power and high rates	44	24	25	22	22	21	20	13	11	14	216	1402	6.49	3

Say for factor development 6×41 + 5×36 +4×82 +53×3 +3×2+1×1=920. Now 920/216 = 4.26. In a similar way, weighted average mean are calculated for other factors. From the above table it can be said that MSMEs utilised fund for meeting working capital needs first, then for repayment of their debt and so on.

MSMEs were asked to rank the above mentioned obstacles they are facing to grow and develop their business in the scale of 1 to 10. The result of ranking the obstacles from 1 to 10 resembles with that of previous one. Like application of fund table highest value 10 and lowest value 1 was assigned to factor as per respondents' frequency. From Table 7 and score it can be said that obtaining finance at cheaper rate is the most affecting obstacles for the MSMEs to grow and develop while acquiring raw material is the least affecting obstacles for MSMEs.

Table 8: Importance of Incentives

Types of Incentives	*Frequency*	*Percentage (%)*
Direct Incentives	118	55
Indirect Incentives	37	17
Both Incentives	61	28
Total	216	100

In all 118 respondents considered direct incentives as most important while 37 considered indirect as most important. While 61 respondents said that both direct and indirect incentives are important.

Table 9: Problems faced by MSMEs to get different types of Incentives

(Strongly Affecting=1, Moderately Affecting=2, Can't say=3, Least Affecting =4, Not Affecting= 5)

	1	*2*	*3*	*4*	*5*	*Total*
To get reimbursement of funds from government	120	74	12	6	4	216
Awareness of different incentives schemes	90	81	38	3	4	216
Procedural complexity	105	54	44	13	0	216
Delayin getting the refund	90	70	40	12	4	216
Have to shift at different locations to get these all incentives	66	56	52	31	11	216
Majority of them have minimum criteria which is difficult to achieve	38	54	35	49	40	216

As revealed in Table 9, receiving reimbursement of funds acts as a one of the major affecting problem to MSMEs

Table 10: KMO and Bartlett's Test

	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	*.791*
Bartlett's Test of Sphericity	Approx. Chi-Square	3766.276
	Df	703
	Sig.	.000

with 120 respondents, while procedural complexities to avail the incentives affects as a second most affecting problem as per 105 respondents. 90 respondents said that awareness is a big issue and without it; it is difficult to avail incentives.

Factor Analysis for parameters considered important for financial and strategic decisions for MSMEs

Bartlett's test of sphericity is a test statistic used to examine hypothesis that the variables are uncorrelated in the population. As shown in Table 10, for the thirty eight variables under study, the significance value of Bartlett's test is 0.000, this leads to rejection of the idea that the correlation matrix is identity matrix. The Kaiser-Meyer-Olkin (KMO) measure for sampling adequacy is an index used to examine appropriateness of factor analysis. It compares magnitudes of observed correlation coefficients to magnitude of partial correlation coefficients. The KMO value varies from 0 to 1. High value (between 0.5 and 1.0) indicates factor analysis is appropriate. Small values of KMO statistic indicate that correlations between pair of variables cannot be explained by other variables, and hence, factor analysis is not suitable (Malhotra, 2008). As shown in Table 10, the KMO value found for this study is 0.791, which is nearer to 1. Hence, this value is acceptable and justifies the appropriateness of factor analysis.

Communality is the amount of variance a variable can explain with all the factors being considered. This is also the percentage of total variance explained by common factors (Malhotra, 2008).The method selected for conducting the factor analysis here is principal component analysis. In this method, the total variance in the data is considered. The initial communalities for principal component analysis are one. For the present study, communalities are calculated as shown in Table 11. Factor Analysis: The results of KMO (0.791) and Bartlett's test of Sphericity (Chi square - 3766.276 and significance – 0.000) indicate that factor analysis done with 38 variables is effective. There were eleven factors extracted by using the method of principal component analysis and rotation method of varimax with Kaiser Normalisation with criteria for eigen value more than one.

It is required that the scale constructed and the components extracted should be able to explain maximum variance in the data. For this, an analysis of the Eigen values is required. Eigen value represents the total variance explained by each factor (Malhotra, 2008). Table 11shows the Eigen values of all the variables that can be extracted.

Table 11 shows the cumulative variance. However, it is required that the maximum amount of variance should be explained in minimum number of components. Only those factors are extracted for which the eigen values are greater than one. From the above table it can be concluded that until eleven factors eigen value is greater than 1. However, for the present study it has been decided to consider only 7 factors. When it was considered to take all eleven factors cumulative percentage of extraction sum of squared loadings was very high but there was only one factor was identified from rotated component matrix. So it was considered to take 10 factors, but similar problem occurred for it. When it was tried with nine factors 61.724 was found as a cumulative percentage of extraction sum of squared loadings, but as above only one factor was found from rotated component matrix whose value is more than 0.5. So, it was tried with eight factors whose cumulative percentage of extraction sum of squared loadings was 58.666 but like earlier case one factor was found whose value is more than 0.5. Thus, it was finally decided to take seven factors whose cumulative percentage of extraction sum of squared loadings was 55.445 and total three factors were found from rotated component matrix whose value is more than 0.5. Thus, the factors extracted in the study are seven in number and together contribute 55.445 percent of total variance. This is a fair percentage of variance to be explained for the appropriateness of the factor analysis. Thus extracting seven factors from total 38 variables for measuring the satisfaction level is good by all means.

Table 11: Total Variance Explained

Total Variance Explained									
	Initial Eigen values			*Extraction Sums of Squared Loadings*			*Rotation Sums of Squared Loadings*		
No.	*Total*	*% of Variance*	*Cumulative %*	*Total*	*% of Variance*	*Cumulative %*	*Total*	*% of Variance*	*Cumulative %*
1	9.123	24.008	24.008	9.123	24.008	24.008	3.850	10.132	10.132
2	3.063	8.061	32.069	3.063	8.061	32.069	3.832	10.085	20.217
3	2.444	6.430	38.500	2.444	6.430	38.500	3.260	8.580	28.797
4	1.924	5.062	43.562	1.924	5.062	43.562	3.020	7.948	36.744
5	1.740	4.579	48.141	1.740	4.579	48.141	2.927	7.703	44.447
6	1.516	3.989	52.130	1.516	3.989	52.130	2.200	5.790	50.238
7	1.260	3.315	55.445	1.260	3.315	55.445	1.979	5.208	55.445
8	1.224	3.221	58.666						
9	1.162	3.058	61.724						
10	1.042	2.742	64.466						
11	1.009	2.656	67.122						
12	.936	2.463	69.585						
13	.878	2.310	71.895						
14	.840	2.209	74.104						
15	.814	2.142	76.246						
16	.763	2.009	78.255						
17	.725	1.909	80.164						
18	.643	1.691	81.855						
19	.633	1.665	83.520						
20	.560	1.475	84.995						
21	.546	1.438	86.432						
22	.521	1.371	87.803						
23	.485	1.276	89.080						
24	.449	1.181	90.260						
25	.422	1.110	91.370						
26	.408	1.073	92.443						
27	.384	1.012	93.455						
28	.334	.879	94.333						
29	.321	.845	95.178						
30	.304	.801	95.979						
31	.276	.727	96.706						
32	.253	.665	97.371						
33	.205	.539	97.910						
34	.192	.505	98.416						
35	.179	.470	98.885						
36	.175	.459	99.345						
37	.157	.414	99.758						
38	.092	.242	100.000						

Extraction Method: Principal Component Analysis.

Table 12: Rotated Component Matrix

Rotated Component Matrix[a]							
	Component						
	1	*2*	*3*	*4*	*5*	*6*	*7*
Interest Rate Subsidy (7% for Micro and 5% for SMEs) 1% for Young/ Woman Entrepreneur	.202	.090	-.022	-.018	.074	**.739**	.033
Cash Subsidy	.223	.010	.255	.110	.005	**.727**	.035
Backward Area Subsidy	.267	.237	**.606**	-.065	-.055	.087	-.165
Investment Subsidy for Establishment of New Self-financed Units	.383	.286	.255	-.051	-.027	.436	-.007
Rehabilitation to MSMEs Sick Units	.484	.417	.298	.105	-.039	.229	-.091
Venture Capital Assistance	.399	**.555**	-.035	.133	-.048	.221	.014
50% of Cost Reduction of Original for Quality Certification	**.612**	.040	-.024	.166	.118	.364	.054
50% Reimbursement of fees for Skill Enhancement	**.656**	.308	.043	.214	.131	.029	-.011
50% Grant of Original Cost for Technology Enhancement	**.578**	-.085	.301	.096	.217	-.107	-.231
Assistance @ 50% subject to Max. Rs. 10 lakhs for Patent	**.534**	.441	.120	-.045	.083	.065	.176
50% cost of Energy/Water audit conducted for Conservation Purpose	**.578**	.170	.090	.001	.281	.088	.087
Incentives for Packaging Designing Purpose	.303	**.593**	.150	-.149	.248	.153	.047
Assistance for Participation in International Trade Fair	.334	.410	.129	-.115	.403	-.177	-.069
Support for the Vendor Development	.255	**.596**	.026	-.127	.074	-.025	.078
Electricity Duty Exemption for a period of Five Years for the Cluster Associations	**.632**	.234	.056	.333	-.013	.188	.057
QualityUp Gradation Scheme	**.606**	.101	.170	.164	.082	.326	.049
Energy Review Subsidy	.231	-.157	.207	.180	**.531**	.141	-.044
Cash Subsidy for Assessment of Water Consumption	.018	-.055	.335	.212	**.629**	.066	-.144
Assistant for Environment Management (up to 25-50% of fixed capital investment; ceiling Rs. 10 lakhs per project)	.160	.247	-.041	-.046	**.731**	.061	.259
Schemes for Green Practices and Environmental Audit(up to 25-50% of fixed capital investment)	.118	.375	-.121	.017	**.698**	.098	.207
Need Based Support for R & D Institution	.096	.286	-.030	.080	**.568**	-.218	.207
Rehabilitation of sick units (Interest Subsidy @5% p.a. limited to Rs. 10 lakhs per year and experts advice)	.037	.408	-.052	.292	.424	.266	.081
Availability of Land	.021	.230	**.655**	.050	.049	.090	.222
Cost of Land	.046	.041	**.749**	.033	.091	-.107	.048
Availability of Power	.245	-.023	**.527**	.299	.045	.164	.130
Cost of Power	.066	-.023	**.643**	.184	.036	.182	.081
Availability of Water Supply	.063	-.055	.310	**.534**	.197	.329	-.197
Facility of Telecommunication	.024	.470	.338	.245	.253	.074	-.379
Solid Waste Management	.129	**.621**	.110	.339	.153	-.124	.084
Medical and Food Facilities	.036	**.517**	.064	.386	.129	.266	.011
Mass Transportation	.110	.149	.443	**.504**	.030	.091	-.043
Distance From the Market for Raw Material	.218	.012	.096	**.798**	.043	-.058	.083
Distance From the Market for Finished Goods	.156	.056	.060	**.842**	.086	-.001	.052
Warehousing Facility	-.010	.390	.108	.318	.102	.093	**.500**
Housing Facility	.019	.498	.175	-.082	.184	-.019	.489
Banking Facilities	.109	-.069	.324	.275	.260	-.092	.418
Distance from Highway/Nearest Railway Station/Port	.243	.298	.210	.064	-.090	.086	**.640**
Climate and Surroundings at the Place	-.086	-.091	-.039	-.052	.161	.012	**.545**

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation.
a. Rotation converged in 15 iterations.

Further, Table 11 shows the extraction sum of squared loadings of the scale (without rotation) for measuring the satisfaction level construct. A careful look at these extraction sums of squared loadings (without rotation) depicts that 55.445 percent variance is not uniformly distributed across all components and the first factor itself account for 24.008 percent of variance. Thus, in order for variance to be uniformly distributed across all components, a rotation of components matrix is required. Moreover, initial or un-rotated matrix indicates relationship between factors and individual variables; it seldom results in factors that can be interpreted, because the factors are correlated with many variables. In such a complex matrix, it is difficult to interpret the factors. Therefore, through rotation, the factor matrix is transformed into a simpler one that is easier to interpret. The method of rotation used for this study is VARIMAX, which is the most commonly used rotation method. The variance explained by each component before and after the rotation method is shown in Table 11. It is visible from last three columns of the table that the variance is now evenly distributed in a range of 5.208 percent to 10.132 percent.It can be concluded that these seven factors extracted from 38 variables are explaining about 55.455 percent of variance. An analysis of factor loading in rotated factor matrix helps in interpreting and naming seven factors that have been extracted in next section.

Interpretation is done by identifying variables that have very high loadings on same factor. These factors can then be interpreted in terms of the variables that load highly on it. Table 12 shows the rotated component matrix. The labeling of factors is given below. The relationships between the observed variables and the newly produced factors are revealed in the form of factor loadings. These are the coefficients within the matrix that indicate the importance of the factor. These loading have the lower limit of -1.0 and an upper limit of +1.0. For better data reduction those variables that had the factor loadings more than 0.5 were considered under each factor. Fortunately, all the variables which have the factor loading more than 0.5, such 31 variables are considered for loading on extracted seven factors.

Naming of the Factors

The following seven factors were identified as per the factor loading in Table 13:

Factor 1: Quality and Cost

This factor includes seven variables viz. 50 per cent of cost reduction of original for quality certification, 50 per cent reimbursement of fees for skill enhancement, 50 percent grant of original cost for technology enhancement, assistance @ 50 percent subject to Max. Rs. 10 lakhs for patent, 50 percent cost of energy/water audit conducted for conservation purpose, electricity duty exemption for a period of five years for the cluster associations and quality up gradation scheme. The MSMEs therefore insist upon those incentives which help to better compete in terms of improved quality and also can decrease their cost to compete with giant firms.All the seven extracted incentives indicate that MSMEs have realised importance of quality of their product and services and to be cost effective to sustain and excel in a competitive market.

Factor 2: Value Addition

Variables-Venture capital assistance, incentives for packaging and designing purpose, support for the vendor development, style, solid waste management, and medical and food facilities – clubbed in this factor are related with adding more value to MSMEs' competitiveness. Variable such as venture capital assistance mentioned here helps firms to take some risky project and get the management expertise in their business. Incentives for packaging and designing purpose and support for vendor development helps them to identify and sell their products in a new market, while incentives namely solid waste management, medical and food facilities aids them to reduce waste and retain man power respectively.

Factor 3: Infrastructure

Variables such as availability of land, cost of land, availability of power, and cost of power are the component of infrastructure and backward area subsidy aids the firms to finance their project in backward area. These all incentives play decisive role for financial and location decisions of MSMEs. The result indicates that if subsidy is offered in backward areas for regional balanced growth of the industries, firms can readily locate their units in such areas.

Factor 4: Location Advantage

Table 13: Reliability Analysis

Reliability Analysis		
Factors	*Cronbach's Alpha*	*No. Of Items*
1	0.814	7
2	0.676	5
3	0.731	5
4	0.760	4
5	0.737	5
6	0.663	2
7	0.513	3

From ancient times, it has been found that major cities and industries have developed where they have enough water facility and availability of transportation linkage. Incentives clubbed in this factor namely availability of water supply, mass transportation, distance from the market for raw material and finished goods indicates focal advantage for industries.

Factor 5: Green Practices

Today all over the world more attention is given towards sustainable management along with quality and excellence, there is an increased awareness among industries regarding green practices. Energy review subsidy, cash subsidy for assessment of water consumption, assistant for environment management (up to 25-50% of fixed capital investment; ceiling Rs. 10 lakhs per project), schemes for green practices and environmental audit (up to 25-50% of fixed capital investment) and need based support for R & D institution are valued by industries of this group.

Factor 6: Finance is the Blood of Business

As revealed in earlier question that finance at the cheaper rate and availability of finance are ranked first and second respectively in terms of the obstacles faced by MSMEs, interest rate subsidy (7% for micro and 5% for SMEs) (1% for young/woman entrepreneur) and cash subsidy are highly valued by the respondents of this group for their financial and location decision.

Factor 7: Location and Supportive Infrastructure

Warehousing Facility and Distance from Highway/Nearest Railway Station/Port affect the firms' cost and delivery mechanism. In addition, Climate and Surroundings at the Place are the factors affect certain kind of industries such as textiles and others.To measure reliability of items loading into one factor, Cronbach's Alpha was calculated and the result is shown in Table 13. For all sevenfactors, the Cronbach's Alpha value is more than 0.5 indicating that the factors are consistent and reliable.

Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items as a group.In other words, it is a coefficient of reliability. Here the alpha coefficient of all the items is more than 0.5 that indicates the given variables have relatively high internal consistency.

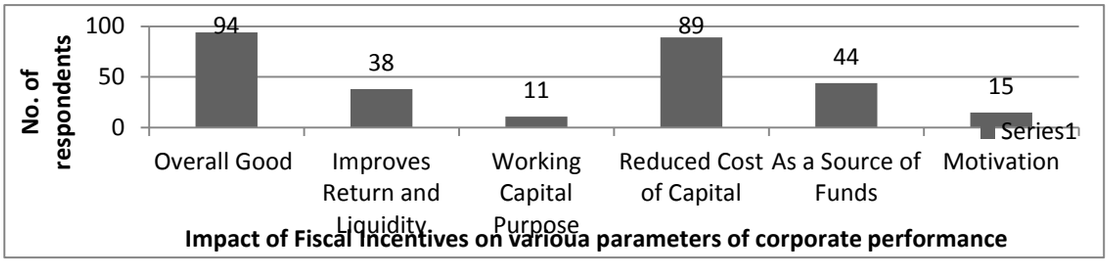
Content Analysis: Analysis of Open Ended Questions

To learn more about owner/managers' views on fiscal incentives, the interview-cum-discussion with MSMEs business owners/managers was conducted. Company owners/managers were asked the questions related to various issues affecting their operations in accordance with objectives of present study. The information sought relates to first, impact of fiscal incentives on corporate performance, second, implications of various incentives on the Indian industry/economy, third, suggestions for current incentives/subsidies, fourth, specific implication of fiscal incentives such as technological, employment wise etc., competitiveness of Indian economy. The responses have been analysed and presented below.

Impact of Fiscal Incentives on Corporate Performance

When it was asked, "How do you incorporate the fiscal

Figure 1: Impacts of Fiscal Incentives on Corporate Performance



incentives in your project analysis i.e. as a source of fund, improved return/margin, reduced cost of capital, as a source of fund, improved liquidity and others? (Appendix, Q.13) All 216 respondents viewed these fiscal incentives as very supportive tool in one or other way in their business performance. Their categorical answers are presented in Figure 1.

Overall Good: A total of 94 respondents out of 216 viewed that in one or other way, all these fiscal incentives improves their return and liquidity and acts as a source of funds. They also opined that it reduces their cost of capital and it also makes the funds available for them for working capital purpose.

Good Motivator: A total of 15 out of 216 considered these different incentives as a motivation to start and expand the business. They expressed their views that certain incentives like Investment subsidy, Interest rate subsidy and vendor support act as motivating force for young entrepreneurs.

Lower Cost of Capital: Reduced cost of capital was considered as one of the most visible impact of incentives by business firms.

Others: Other direct impacts of these incentives were considered in terms of improved return and liquidity, as a source of fund, fund available for working capital purpose etc. Thus, overall, various fiscal incentives were considered beneficial by the firms and they took advantage of these incentives on offer.

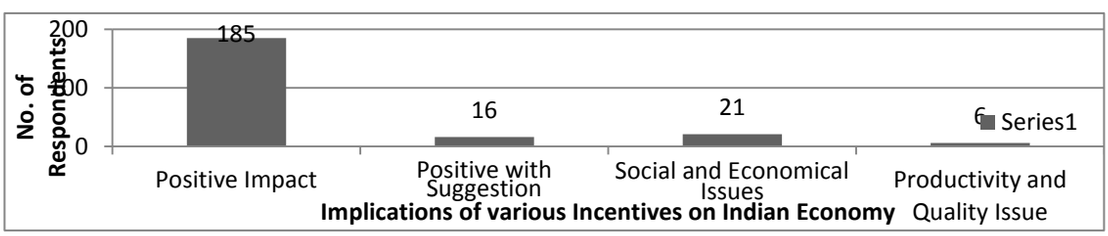
Implications of various Incentives on the Indian Economy

When it was asked what is the overall impact of these incentives on the Indian industry/economy? (Appendix, Q.14) following responses were noted.

Positive Impact of Incentives: Majority of them (185 respondents) responded by saying that incentives are likely to boost up Indian economy in terms of increased employment, exports, foreign exchange reserves, balance of payment, and GDP. They also said that Indian consumers would have variety of quality products and services at reasonable prices because of technological up gradation of Indian industry. They also opined that because of these incentives, MSMEs would be able to compete not only with the local giant firms but also at global level.

Positive Impact with Suggestions: A total of 16 respondents articulatedpositive impact of different fiscal incentives on the Indian economy and suggested that to make the impact of these fiscal incentives long lasting

Figure 2: Implications of Various Incentives on Indian Economy



it must be accompanied with good infrastructure. They also said that mere incentives would not bring the desired result until and unless productivity is improved. They also suggested that government should take initiative to improve quality and skill of labour.

Social and Economic Issues: A total of 19 responded by saying that as every coin has two sides so other side should not be neglected. As the industrial development is concentrated to few cities in Gujarat and also in India, it will result in uneven growth throughout state and country. Cities where it has been concentrated will result in overcrowding, pollution, problems of health and education services to the available community, sky rocketing prices of land and housing facility, poor working and living condition etc. They said that impact of these incentives on Indian economy should be considered from all perspectives. Two respondents said that the result would be long lasting only if incentives are continuous.

Productivity and Quality Issue: A total of 6 Respondents expressed their doubt about the positive impact of various fiscal incentives on industry/Indian economy. They said that Indian products are far lacking in terms of quality and technicality. It will be difficult to boost up the export and sustain the performance without properly addressing productivity of the industry. There is a need to work to improve the quality and skill of labours to improve productivity and reduce wastages.

Suggestions for current Incentives/Subsidies

When it was asked, "Do you have any suggestion for modifications in the current Incentives/Subsidies Schemes?" (Appendix, Q.15), respondents provided various solutions, which were clubbed and coded and analysed as shown below.

No Suggestion: A total of 56 respondents replied that they are okay with present incentive scheme and do not have any suggestion for correction or modification for fiscal incentive schemes/subsidies.

Awareness and Education: A total of 57 respondents suggested that government should work first to create awareness of such fiscal incentives/ subsidies to the industry as majority of them are not aware of it and also its probable benefits. Government should try to educate them. Further they said that for a certain incentives like green management, environment management, energy/ water audit, carbon credit etc. MSMEs should be motivated to avail this.In all 20 respondents viewed that in absence of proper education to avail incentives and their probable benefits, many MSMEs are not availing certain direct incentives.

Easy and Smooth Procedure and Quick Claim Clearance: The procedure to avail incentives should be smooth, quick and online. It was felt that procedural complexities to avail monetary incentives like interest rate subsidy, cash subsidy, backward area subsidy, investment subsidy, rehabilitation to sick units, venture capital assistance etc. take very much time and thus loses its effectiveness.Also at the time of claiming refund, it takes unusual delay.Respondents said the procedure to avail the incentives should be easy and smooth and also the claim to receive it must be settled quickly.

Indirect and Other Benefits: They also responded by saying that government should work for more concrete incentives for the industry. In such a case more and more indirect and 'other benefits' like mass transportation for labour (it is one of the factors for labour absenteeism and high turnover, as majority of the industrial areas are in the outskirt of city, it increases their transportation cost substantially), affordable housing facility for unskilled/ semi-skilled as well as for technical staff, medical and education facility should be provided. Moreover government should try to provide sound infrastructure like road, water, power, cluster for storage, electricity

Figure 3: Suggestions to Modify Current Incentives Schemes

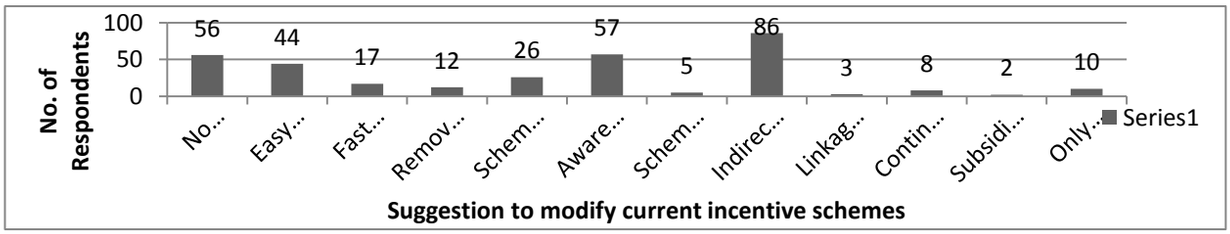
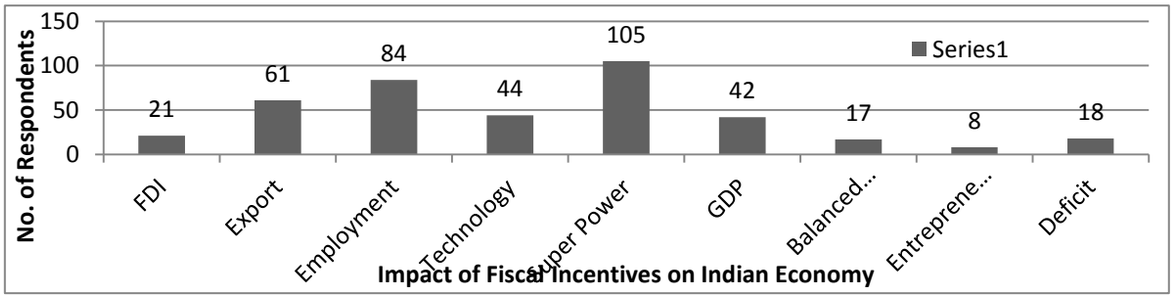


Figure 4: Implications of Fiscal Incentives on Indian Economy



and research etc. They said and there is a strong need to introduce some schemes for quality and skill enhancement of labour. Also, some storage houses for raw material and finished goods and R&D Centers at cluster level will facilitate the MSMEs.

Only 50 percent are Effective: A total of 10 respondents expressed their views by saying that from present incentives only 50 percent are effective and without contributing significantly they just increases government deficit. Government should modify them from time to time and make them more result oriented. They emphasised on a dire need to redesign the present fiscal incentives to make it effective.

Subsidies are More Preferable: In all 2 respondents opined that subsidies are more preferable than tax incentives.

Schemes for Rural and Backward Area: A total of 5 investors felt that industrial growth is not geographically balanced which brings unequal distribution of income in the society and creates some social and economic issues. Mainly respondents from Ahmedabad and Surat reacted that because of too concentrated industrial development, labour becomes expensive and also due to widespread opportunity available in the market- labour turnover is very high. Also because of sky rocketing prices of land and houses support staff demand high HRA to be compensated – all these factors increases cost of business and thus reduce returns.Instead government should also cover rural and backward areas under such schemes and should try to promote them by introducing such fiscal incentives.

Quality and Skill Enhancement: A total of 26 investors responded that bunch of the various fiscal incentives may not be effective until and unless appropriate schemes to tap the gap of quality and skill of labour is introduced.

Others: A total of 3 respondents gave very useful suggestion that to reduce dying ratio in the MSMEs and also number of sick units, Government should work to set up a linkage between MSMEs and Large Scale Industries. A total of 8 respondents viewed that to test whether any policy or initiative are effective, there must be an enough long period of such fiscal benefits for MSMEs. Until and unless this incentives are continuous for a reasonable long period industries cannot tap its full fledge advantage as removal and frequent change of such incentives discourages present and prospective investors. 12 investors said government should take some steps to reduce corruption.

Specific Implication of Fiscal Incentives such as Technological, Employment, Competitiveness of Indian Economy etc.

To understand specific impact of these incentives it was asked that, "As per your opinion what will be the implications of various schemes on the overall economy?"eg. Technological, Employment, Competitiveness of Indian Industry in the world market etc. (Appendix,Q. 16)

A total of 105 responded that in all respects Indian economy will shine and India will lead the world and there will be a noteworthy rise in FDI, exports, employment, GDP and entrepreneurial ability of Indian people. A total of 18 felt that because of the fiscal incentives and encouragement by the government in one or the other way, employment as well as investment will increase but it will also lead to rise in budgetary deficit which may have very severe repercussion if not addressed and controlled properly.

One very interesting outcome of this question was pertaining to technology. Respondents expressed their mixed judgement. They said that if proper step is taken in this direction then only, India can boost its exports and other benefits, otherwise India will not be able to achieve desired target as India's products lack in terms of technology and basic international standards.

Investors accepted that these fiscal incentives will result in to increased exports, foreign exchange reserves, FDI, balanced growth of sectors, entrepreneurial ability etc.

Conclusion

Fiscal incentives are perceived by owners/managers as a good motivator to start the business; also, it reduces the cost of capital of the firm and improves liquidity of the business. In addition, many of them considered it as a source of fund. The above analysis indicates that there is a need to significantly modify the structure and form of the present incentives if the economy as a whole wants to gain maximum from this. Along with incentives, there is also need to work for productivity in firms. The study revealed that incentives must be designed in such a way that it leads to overall balanced geographical distribution of industries across regions. At present industries are concentrated at some places and it results in to overall high cost for firm. In addition, it was opined by many industry users that mere incentives does not bring the desired results. Government needs to look for infrastructural development and enhancing skill of semi-skilled and un-skilled workers. As MSMEs are finding it difficult even to locally sell their product, it was viewed that, there must be a linkage between MSMEs and large-scale companies. Regarding overall impact of MSMEs on the Indian economy, majority of the respondents agreed that it helps to boost employment, export, GDP etc. One interesting view opined by investors is that there is need to do cost benefit analysis of present incentives provided by the government otherwise it will result in to higher fiscal deficit.

Despite so many reforms and government initiative for this sector, they find it difficult to avail the finance and avail it at cheaper rate.In addition, availability of skilled labour and power at the reasonable price are factors affecting their performance adversely. Many of the respondents were not aware of incentives and hence did not avail other incentives. This poor awareness shows the need to look in to this matter for the effectiveness of this program. Direct fiscal incentives like interest rate subsidy, cash subsidy, backward area subsidy etc. along with other benefits like availability and cost of land, availability and cost of power, distance from market for raw material and finished goods are very important parameterfor financial and location decision of the business.To get the reimbursement of funds, procedural complexity, awareness of different incentives and delay in getting refund are cited as the most strongly affecting problems to the MSMEs.

Limitations

As firms were skeptical to reveal financial data; financial data were omitted from earlier version of questionnaire. Moreover sample size was restricted owing lack of response from firms. The other limitation is that the study is restricted to the state of Gujarat only.

Outcome of the Study

It is expected that outcome of the study will help macroeconomic policy framers to design and frame various fiscal concessions in such a way that it can really augment the performance of corporate sector and hence help to boost up the economy.

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Appendix

MSME Survey Questionnaire

Q.01. Year of Establishment_____

Q.02. Type of activity : (Please tick mark (√) on the appropriate one)

1	Manufacturing	
2	Trading	
3	Services	

Q.03. Main Products & Activities :

Q.04. Investment in Plant and Machinery (Manufacturing)

1. Up to Rs. 25 lakhs _____
2. Above Rs. 25 lakh up to Rs. 5 crore _____
3. Above Rs. 5 crore up to Rs. 10 crore_____

Q.05. Investment in Equipment (Service)

1. Up to Rs. 10 Lakh _____
2. Above Rs. 10 lakh up to Rs. 2 crore _____
3. Above Rs. 2 crore up to Rs. 5 crore _____

Q.06. Turnover of the organisation

1. Less than Rs. 25Lakh____
2. Rs. 25 to75 lakhs____
3. Rs. 75 lakhs to Rs. 1 Crore____
4. Above Rs. 1 Crore_____

Q.07. Generally from where do you procure finance?

1. Bank Loan____

2. Equity Capital_____
3. Relatives/Friends _____
4. Venture Capital _____
5. Own Funds _____
6. Others (Please specify) _____

Q.08. Which are the obstacles faced by you to grow and develop? (Please tick mark (√) on the appropriate one) **(Most Affecting=1, Affecting=2, Cannot Say=3, Least Affecting=4, Not Affecting at all=5) (Also Rank it)**

Types of obstacles faced	*1*	*2*	*3*	*4*	*5*
Obtaining Finance					
Obtaining Finance at cheaper rate					
Low Profitability					
Getting Permissions from the government					
Acquiring Skilled Labour					
Acquiring raw material					
Difficulty in finding the market for finished goods					
Poor quality of goods and services					
Conveyance Problem					
Availability of Power and high rates					
Others (please specify)					

Q.09. Generally where do you use the funds? (Please tick mark (√) on the appropriate one) **(Also Rank it)**

1. Development _____
2. Expansion _____
3. R & D _____
4. Working Capital _____
5. To repay debt _____
6. Dividend_____
7. Others (Please Specify) _____

Q.10. What do you think is more important to you? Please tick (√) in the appropriate one.

1. **Direct** Incentives ____
2. **Indirect** Incentives_____
3. Both _____

Q.11. Given below is the parameters important for financial and strategic decision. Please tick (√) in the appropriate column. **(Very Important=1, Important=2, Neutral=3, Not Important=4, Not at all important=5)**

Group A (Direct Incentives)	*1*	*2*	*3*	*4*	*5*
1.Interest Rate Subsidy (7% for micro and 5% for SMEs) (1% extra for young/women entrepreneur)					
2. Cash Subsidy					
3. Backward Area Subsidy					
4. Investment Subsidy for establishment of new self-financed units					
5. Rehabilitation to MSME Sick Units					

Group A (Direct Incentives)	*1*	*2*	*3*	*4*	*5*
6. Venture Capital Assistance (max. Rs. 10 crores)					
Group B (Indirect Incentives)					
1.50% of cost reduction of original for quality certification_					
2. 50% reimbursement of fees for skill enhancement					
3. 50% grant of original cost for technology enhancement					
4.Assistance @50% subject to maximum Rs. 10 lakhs for patent					
5. 50% cost of energy/water audit conducted for conservation purpose					
6.Incentives for Packaging designing purpose					
7. Assistance for participation in international trade fair					
8. Support for the vendor development					
9. Electricity duty exemption for a period of five years for the cluster associations					
10. Quality up gradationscheme					
11. Energy review subsidy					
12. Cash subsidy for assessment of water consumption					
13. Assistant for Environment Management (up to 25 to 50 % of fixed capital Investment: ceiling Rs. 10 lakh per project)					
14. Scheme for 'Green' Practices and Environmental Audit (up to 25 to 50 % of fixed capital Investment)					
15. Need based support to R&D Institution					
16. Rehabilitation of sick units (Interest subsidy @ 5% per annum limited to Rs. 10 lakhs per year and experts' advice)					
Group C (Other Benefits)					
1.Availability of Land					
2.Cost of Land					
3.Availability of Power					
4.Cost of Power					
5.Availability of Water Supply					
6.Facility of Telecommunication					
7.Solid Waste Management					
8.Medical and Food Facilities					
9.Mass Transportation					
10.Distance from Market Raw Market Source For Finished goods					
11.Warehousing Facilities					
12.Housing Facility					
13.Banking Facilities					
14.Distance from highway / nearest railway station/ port					
15.Climate and the surroundings at the place					

Q.12. What are the problems faced by you in getting these different types of fiscal incentives? Please rate on a scale of 1-5. **(Strongly Affecting=1, Moderately Affecting=2, Can't say=3, Least Affecting =4, Not Affecting= 5)** (Please put √ mark at appropriate places)

	1	*2*	*3*	*4*	*5*
To get the reimbursement of funds from government					
Awareness of different incentives schemes					
Procedural complexity					

	1	2	3	4	5
Delayin getting the refund					
Have to shift at different locations to get these all incentives					
Majority of them have minimum criteria which is difficult to achieve					
Others (please specify)					

Q.13. How do you incorporate the fiscal incentives in your project analysis? (As a source of fund, reduction in capital cost, inflow from the project etc.) Please explain:

Q.14. What are/will be the implications of these various incentives on the Indian Industry/Economy?

Q.15. Do you have any suggestion for modifications in the current Incentives/Subsidies Schemes?

Q.16 As Per your opinion what will be the implications of Various Schemes on the overall economy? For ex. Technological, employment, Competitiveness of Indian industry in a world market etc)

COMPANY PROFILE(Optional)

1.Company name

_____

Address

_____

Fax _____ Telephone_____