

JANA SAVIYA PRODUCTION UNITS— A SCHEME

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One of the main highlights in the Budget Speech presented by Hon. D.B. Wijetunge, Prime Minister and Minister of Finance was the setting up of Small Production Units at village level using indigenous raw-material and the linking of these Units with large Industrialists, Agriculturists and Exporters. The relevant extract from the Budget Speech is given below:—

“The main thrust of the country's development programme in the next two years would be on the alleviation of poverty and the creation of village based self-reliant organisations and small production units which would help to increase the productivity of the poor through creation of new employment opportunities. These small production units will also provide the valuable link between large industries and our agriculture, adding value to the produce of the farmer. This will not only bring additional income to the people in the villages, but will also provide a sound indigenous base to our industry. This marriage between the big investors and the small producers will increase production, cut down on overheads, reduce inflation and will generate sustainable employment for the vast majority of our rural poor. It will also be the surest way to accelerate the development of our remote and backward areas.

This is the essential philosophy behind the Jana Saviya Programme, which is conceived, developed and now being translated into reality by His Excellency the President to uplift the poor and to bring them back into the economic mainstream of the country. Jana Saviya is not a hand out - it is not a dole programme - to perpetuate our people in poverty. It is a sound investment in our human base.

Our welfare programme will also provide for a free mid-day meal for all school-going children in the country. His Excellency the President has already directed the Provincial Councils, which will imple-

ment this programme, to use, as far as possible, only local produce in the mid-day meals. This will provide an incentive to the local producer to grow more and improve his income. His Excellency has also given a slogan to this island-wide mid-day meal scheme: “Income to parents and nutrition to their own children”

The method by which the small production units could be linked to larger units would be, by the system of sub-contracting. The system of sub-contracting has been in existence for a long period of time and this is a method by which large Industrialists and Exporters have helped the small scale businessman.

The Jana Saviya Programme, launched by His Excellency the President to alleviate poverty, has now highlighted the importance of the system of sub-contracting to set up small production units at village level, linked to large units.

Methods by which sub-contractors could be linked to larger organisations are as follows:—

1. Manufacturing Industries —

These are existing organisations which are involved in the production and manufacturing of finished products. These industries could purchase components, packing materials and other items required for manufacture or assembly.

2. Export Houses —

These are organisations which are exporting various items and have a ready export market for various products, and services. These fall into industrial and agricultural products, services and other exportable products.

3. Trade or Marketing Houses —

These are organisations which are mainly involved in trading and marketing activities in the local market.

In the case of Sub-contractors it is envisaged that they would be directly linked to any of the above mentioned orga-

nizations. There is a definite advantage for small sub-contractors to be linked to larger organisations and some of them are as follows:—

- i) The large organisation could identify the product or item to be supplied by the sub-contractors.
- ii) The training and assistance for setting up of the sub-contract unit could be carried out by the larger organisations.
- iii) The supply of raw-material will be ensured and the quality of the raw-materials controlled.
- iv) Quality control standards will be laid down.
- v) The larger organisations would buy back the items manufactured by the sub-contractors and thereby guarantee a market.
- vi) The large organisation could arrange to deduct the loan instalments and repay the Banks from the money realised on the purchase of the products from the sub-contractors.
- vii) The sub-contractor would be able to concentrate on production activities as the large organisation would be responsible for all other matters.

In order to assist the sub-contractors to set up these Projects, the Banks would have to play a major role in providing the necessary funds. Two methods could be adopted for funding the sub-contractors.

1. (a) The Banks could lend the money to the larger organisation which in turn will disburse the monies to the sub-contractors.
- (b) The Banks could lend money direct to the sub-contractors, provided the project is viable and has a direct link with the larger organisations which are committed to provide the necessary technical expertise and guarantee the buy back.
2. The Banks could provide additional funds to the large organisations to provide for working capital financing such as purchase of raw-materials and finished goods from sub-contractors.

The large and well established Industrial, Agricultural, Export and Marketing organisations have a definite role to play in promoting sub-contracting and there-

by setting up small scale production units at village level. Therefore, the Private, Corporation and Government Sector organisations should play an active role to promote the setting up of small scale units in order to achieve the main objective of the Jana Saviya Programme of alleviating poverty and the creation of village based self-reliant organisations and small production units. The methodology for the setting up of Jana Saviya Production units or sub-contracting units linked to large organisations under the Jana Saviya Programme are as follows:—

1. All Private, Corporation and Government manufacturing, trading and export organisations should be brought under the scheme of sub-contracting.
2. Each of these organisations should identify the type of product or service that could be given out for sub-contracting. They should set up a minimum of 10 sub-contracting units, employing a minimum of 2 - 5 persons.
3. A Government policy directive regarding use of locally manufactured products would enhance the setting up of the sub-contractors or Jana Saviya Production Units.
4. (a) Tax benefits should be given to the large industrial organisations that set up sub-contracting units, such as the deduction of the total capital investment of sub-contractor from profits of the Company for purpose of income tax.
(b) Sub-contractors should not be liable for any type of taxation for a period of 3 years. Sub-contractors should be treated as a part of the informal production centres.
5. All items of Industrial, Agricultural, Fisheries, Livestock, Services and other areas should be brought under this scheme of sub-contracting.
6. In the case of agricultural and food items, the Co-operatives, C.W.E., Paddy Marketing Board and other private and public sector marketing organisations should be made use of.

7. Sub-contracting could be started on a large scale for the Diamond and Gem cutting and polishing and Jewellery trade.
8. Setting up of specialised Export Houses and Local Marketing Organisations should be encouraged.

The People's Bank has already commenced a Scheme for granting loans to sub-contractors. For example, a loan granted to an Export Company for the purpose of giving loans to sub-contractors was worked out on the following basis:—

1. The Export Company provided training to the sub-contractors in their own factory.
2. The Export Company submitted a Project Report.
3. The cost of machinery and raw-materials required by the sub-contractors was worked out together with earning capacity of each sub-contractor.
4. The Bank agreed to give the Company a loan to be disbursed to each of the sub-contractors on the following basis:
 - (a) The Company would train the sub-contractors.
 - (b) The raw-material would be supplied.
 - (c) The Company would buy back the finished product.
 - (d) The loan instalments would be deducted and remitted by the Export Company to the Bank.
 - (e) The Company would guarantee the loan.

Another example was where the Bank gave the loans direct to the sub-contractor on the following basis:—

- (a) The large organisation undertook to train the sub-contractors.
- (b) Raw-materials were to be supplied by the large Company.
- (c) The finished products would be purchased by the large Company.
- (d) The loan instalments would be deducted and remitted direct to the Bank.
- (e) The supervision of the sub-contracting Units would be done by the large organisations.
- (f) The Bank would give the loan direct to the sub-contractor.

There a number of advantages in the scheme of sub-contractors being linked to larger organisations, rather than their setting up small scale units on their own. Among the reasons for such advantages are the following:

1. The larger companies with their experience and knowledge would be able to start up Projects which are viable after taking into consideration the marketing, technical, production, raw-material and finance aspects.
2. The sub-contractors or Jana Saviya Production Units will be able to obtain assistance and support of the large organisations and they will feel more confident in starting up these small Units.
3. The sub-contractor could concentrate on production as other matters will be looked after by the large Company.
4. The Banks would be able to consider the grant of loans to sub-contractors on a project basis, taking into consideration the viability and the other inputs of the larger organisations such as marketing and technical areas.
5. Large Organisations could make use of sub-contractors to produce goods at lower cost.
6. The Capital Investment of large Companies will be reduced while production would be increased without increase in Fixed Costs by the use of sub-contractors.
7. The large company should pay a reasonable price to the sub-contractors in order to make the scheme of sub-contracting a success.
8. Sub-contractors could find an opportunity to improve management methods and skills. Poor management has in many instances resulted in failure of many projects and companies.

Therefore, considering all these matters sub-contracting could be a very convenient and low cost method for achieving the objectives of the Jana Saviya Programme and for the setting up of 'Jana Saviya Production Units.'