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Working of Self-Employment Schemes of SETMAH
Case studies – Mahabubnagar District

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While unemployment is a universal problem, its impact would be severe in a heavily populated country like India. The objectives of the Indian economic policies are oriented towards growth, social justice and self-reliance. The economic growth rate in India has been less than 5 per cent per annum in most of the years whereas the unemployment rate has been mostly above 6 per cent per annum. The Government of India, since 1972, realised that the growth oriented plans do not, on their own, attempt to solve the unemployment problem. Accordingly, special employment schemes were evolved to supplement the main plans. One of the self-employment schemes initiated by the Government of Andhra Pradesh was to establish district level societies for training and employment promotion to identify educated unemployed youth, imparting necessary skills through training programmes, motivate youth to start self-employment units to provide assistance through margin money (MM) and co-ordinate institutional lending. This programme was initially started in the twin cities as SETWIN in the year 1979, and was extended to the districts in the year 1983. More than a decade has passed since. Therefore, an in-depth study of the self-employment schemes is needed. Accordingly, a few cases in the district of Mahabubnagar were chosen for an empirical investigation. This paper covers the assistance programmes through case studies of SETMAH (Society for Training and Employment Promotion in Mahabubnagar district).

An attempt is made in this paper to evaluate the assistance programmes of SETMAH, through case studies of Self -Employment Schemes (SES) of SETMAH.

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Methodology

To facilitate comparison, one successful case and one case of failure were selected. "Success" is defined in the present context as ability and commitment to pay back margin money to the SETMAH and the bank loan. While commitment to pay is the individual entrepreneur's subjective matter, the ability to pay can be judged through a viability study. Accordingly, for each case the financial viability was examined by preparing profit/loss statement on the basis of cost information collected from the beneficiary and from the competitive units for verification of accuracy. While the case history reveals the commitment of the candidate, the viability report reveals the ability to pay back. This analysis through diagnosis of the cases would help a policy instrument like SETMAH to improve its working.

The cases analysed here are based upon the data collected from the office records of SETMAH, banks, and governmental agencies, and supported by primary data collected through personal visit by the researcher to each unit. However, to maintain confidentiality, the names of the cases have been codified as case No. 1 and case No. 2.

Case No. 1

Profile of the beneficiary

Case No. 1 is the eldest son of the parents aged 40 years, and belongs to BC-D category. He passed B.Com and is a native of Wanaparthy town in the district of Mahabubnagar. He had undergone training at a private driving school and possessed a four-wheeler licence. He gained driving experience in the APSRTC Picket Depot. In his application he disclosed that he left the APSRTC to establish his own unit. However, further probing by the researcher revealed that he was twice discontinued by the RTC for irregularities.

Case history

Case No. 1 has applied for bank loan prior to approving SETMAH On getting the bank's consent, Case No. 1 applied for margin money assistance on 16-6-1988. It was approved by the Chairman of SETMAH on 7-9-1988. The total project approved was of Rs. 2,10,965, SETMAH agreed to provide Rs. 20,000 as MM. Rs. 22,000 was to be brought by the beneficiary, and the balance of Rs. 1,68,965 was to be financed by the SBH, Wanaparthy. The amount sanctioned was released through cheque on 2-1-1989.

After this, the bank, at the initiation of the beneficiary, called for a tender from vehicle suppliers and at last purchased the Allwyn Nissan vehicle as opted by the beneficiary. The vehicle was handed over to the candidate in the month of February 1989.

It is reported in the bank records that the beneficiary is regular in paying to the bank but very irregular in the payment of installment to SETMAH. SETMAH records revealed that the beneficiary initially paid Rs. 2,000 to SETMAH and discontinued payment thereafter. On pressure from SETMAH Case No. 1 paid a penal interest of Rs. 10,000 during February 1995, and quoted following reasons for not repaying.

Reasons

1. Diesel and maintenance charges of the vehicle were very high and day-to-day expenses were increasing.
2. Case No. 1 had to also borrow Rs. 22,000 from private financers to meet his share of contribution. Hence the interest on the private loan was being paid by him on priority.
3. R.T.O. inspection and seating taxes were very high and frequent, thereby increasing the cost.
4. Case No. 1 perceived the MM as a subsidy from Government.
5. No market support came from the government. He expected government departments to use his vehicle at cost.
6. The time lag in sanctioning the loan amount by the bank and SETMAH was too long, i.e., 7 months. He had to incur Rs. 2,000 during that period.
7. The permit rules of R.T.O. were too stringent, which made his business non-viable.

Analysis and interpretation of Case No. 1

By observing case No. 1, it can be seen that the beneficiary would be incurring a loss of Rs. 8,079 per month even by ignoring depreciation. The loss, after deducting fixed cost per month, other than financial expenses, was itself Rs. 3,764. That means the contribution of Rs. 6,020 would not be sufficient even to meet the salaries of the driver and the cleaner, and the statutory amounts payable to the R.T.O. Assuming the information supplied by the beneficiary to be true, the beneficiary to be should have stopped operating the Allwyn Nissan. The very fact that the entrepreneur has been operating the vehicle for the last six years, denotes that the information is only partially correct. On cross-verifying with the other vehicle operators in the district, it was found that the operating cost data given by the beneficiary was true. While there was no dispute with the R.T.O permit rates and seating tax rates, the beneficiary appeared to be running the vehicle occasionally without the R.T.O permits. This statement is based on the fact that the beneficiary opted for adhoc permit system, rather than the quarterly permit system. While the cost of R.T.O permission in case of quarterly payment system worked out to Rs. 500 per month, the cost of permit in case of adhoc permit system worked out to Rs. 2,834 if the vehicle was run for at least 20 days. No prudent business man will spend five times more amount. Hence, there is a possibility of the beneficiary running the vehicle without permit for more number of days, or he would be incurring heavy loss. However, the beneficiary had no alternative except paying Rs. 3,750 per month seating tax.

It was reported that the beneficiary is regularly paying the installment of Rs. 3,168 per month to the bank. With the data given, it would have been impossible for the beneficiary to pay the installment amount to the bank with a loss of Rs. 3,764 before paying the financial expenses. This indicates that the contribution obtained is not correct. Since the operating cost data given tallies with the operating cost data obtained from other sources, it is inferred that turnover proceeds data must have been under-valued.

The turnover data was worked out as follows. A 15-seater running 200 km per day at the rate of Rs. 25 per 100 km (i.e. 15 x 50 x 20 days) in 20 days is Rs. 15,000. Since the 15-seater vehicle does not have the facility for standing passengers, physically it would not be possible to carry more than 18 to 20 passengers at a time. Assuming that 20 persons are carried per trip, the turnover proceeds worked out to Rs. 20,000 (20 x 50 x 20 days). Similarly, the vehicle must have been in operation for more than 20 days in the month. In such a case also turnover proceeds would be more than Rs. 20,000. At least turnover proceeds would have been Rs. 20,000 due to the higher rates per seat (the present rate given as on par with the RTC rates). Depending upon the occasion and the need of the passenger the rate might be going up to Rs. 40 per 100 kms. The fact that the candidate has been paying the installment regularly to the bank denotes that his contribution must have been more than Rs. 10,018 so as to cover fixed expenses as follows.

1. R.T.O. permits	Rs. 500 p.m
2. Seating tax	3,750 p.m
3. Salaries	
(i) Driver	2,000 p.m
(ii) Cleaner	600 p.m*
4. Financial expenditure	3,168 p.m
	10,018 p.m

*(According to the cleaner)

Conclusion

If the data given by the beneficiary was true, the project would be totally not viable, and the beneficiary should have closed his operation long back. However, the fact that the beneficiary does not opt for closure of the unit denotes that he gets some surplus. Hence, it can be inferred that the party is deriving concrete benefit from the services of SETMAH. Hence, it is justified for SETMAH to make serious attempts to collect its installment back, thereby regularising the functioning of the unit.

By linking the profile of the beneficiary and the cost data analysis, it can be concluded that neither is the case viable nor the entrepreneur has any commitment The market potentiality of the case depends upon the government policy to permit private transport system in the State. Due to the ambiguity in the policy in allowing private transport system the special background of the entrepreneur contributed to the lack of integrity in reporting correctly to the lending agencies about the sales proceeds. SETMAH, while giving margin money, must look at these aspects, especially while approving schemes for aged and experienced persons.

Case No. 2

Profile of the beneficiary

Case 2 also is the eldest son in the family, aged 30 years, belonging to BC category He is a native of Hanwada village in the District Mahabubnagar Having failed in S.S.C. he had undergone training in a private driving school and possessed a four-wheeler licence. He acquired driving experience with a private vehicle and desired to run his own vehicle under Self-Employment Scheme.

Case history

Case No. 2 had applied for bank loan prior to approaching SETMAH. Once the bank gave consent, Case No. 2 applied for margin money assistance on 25-6-1991 The case, after scrutiny, was approved by the chairman of SETMAH on 8-8-1991. The total project approved was of Rs. 3,18,115. SETMAH agreed to finance Rs. 50,000 as MM. Rs. 46,115 was to be brought by the beneficiary as his own contribution and the SBH Hanwada agreed to finance the balance of Rs. 2,22,000 on the recommendations of the local M.L.A for assistance (from his quota). The total amount was released through cheque on 18-9-1991. Following this, the bank, at the initiation of the beneficiary, called for tenders from vehicle suppliers and at last purchased a DCM Toyota (freight carrier van) as opted by the beneficiary. The vehicle was handed over to the beneficiary in the month of October 1991.

It is reported in the bank records that the beneficiary is regular in paying to the bank as well as to SETMAH. The beneficiary attributed this to good and smooth running of the vehicle. Though the case is considered to be successful the beneficiary explained the following problems in running it.

Problems

1. Diesel and maintenance charges of the vehicle were very high
2. He borrowed Rs. 46,115 from a private financier to meet his share of contribution The interest rate on this private loan was very high and had to be paid on priority. He therefore urged the government to increase its share through increasing the margin money amount.
3. There is no market support from the government. He expects the government to render market support by asking the departments to use his vehicle at a cost.

Analysis and interpretation of case No. 2

By observing table 2, it can be noticed that the beneficiary would be getting profits every month even after providing depreciation. The profit, after deducting fixed cost and marginal cost was Rs. 11,728 per month. That is, the contribution of Rs. 15,402 would be sufficient to meet all expenditures. The total profit after deduction of depreciation was Rs. 4,332 per month. The information supplied by the beneficiary was cross checked by the researcher by interacting with bank, SETMAH officials and the competitors. It is reported that case No. 2 is regularly paying the installment to bank and SETMAH also.

Conclusion

If the data given by the beneficiary is taken as it is, the project can be judged as viable. The regular payments indicate candidate's commitment also. However, talking to SETMAH officials revealed that the regularity in payment to SETMAH could be ensured only after persuasion. This reflects that continuous persuasion on the part of SETMAH is essential for recovery of its margin money even in a potentially viable project. Candidates apparently have an attitude that SETMAH money is like a subsidy. There is a need to correct this attitude of the beneficiary. Case No. 2, as usual, seeks government support for marketing.

TABLE 1
Statement of profit / loss for one month: Case No. 1
(without depreciation)

	Rs.	Rs.
Expected sales turnover proceeds 15 seats, 200 km per day x Rs. 50 (@ rate of Rs. 25 per 100 km) (15 x Rs. 50 x 20 days)		15,000
Less: Marginal cost per month A. Operational cost (a) Diesel (20 x 200 / 8x 8 Rs.) (b) Engine, gear, gear box, brake oil and other maintenance cost	• 4,000 4,980	8,980
Contribution		6,020
Less: Fixed cost per month (a) R.T.O. permits @ Rs. 375 for 3 days plus Rs. 50 for challan for 20 days (b) Seating tax for seat is Rs. 750 for 3 months (15 seats x Rs. 250) (c) Salaries (i) Driver (ii) Cleaner	2,834 3,750 2,000 1,200*	
Operating cost per month	9,784	9,784
Loss in operation		- 3,764
Less: Financial expenses A. S.B.H. - W.P.T. B. SETMAH - MBNR C. External borrowings	3,168 426 721	- 4,315
Total loss: Without depreciation		- 8,079

(*Source:* Cost turnover figures given by the beneficiary during the interview by the Researcher on 25-4-1995.)

*The salary of the cleaner in this case appears to be controversial: The cleaner claims (as indicated in the text) he was being paid Rs. 600/month whereas the beneficiary stated he was paying Rs. 1200/month. In this table, beneficiary's figure has been used.

TABLE 2
Statement of profit / loss for one month: Case No. 2

	Rs.	Rs.
1. Sales turnover proceeds 10,000 km for one month, 1 km for Rs. 3 (with luggage of 35,000 kg.only)		30,000
2. Less; Marginal cost - per month OPERATIONAL		
(A) Diesel 1 ltr for 7 km Rs. 8 per litre with 10,000 km. per month (10,000 x 8 / 7)	11,429	
(B) Engine oil for every 6500 km Rs. 570	877	
(C) Gear and Gear box oil for every 30,000 km. Rs. 500	167	
(D) Brake oil for 10,000 km (1 ltr Rs. 200)	200	
(E) Batteries and distilled water	200	
(F) Tyre servicing: Total 7 tyres (including one extra tyre) for every 6 months Rs. 2100 (for tyre is Rs. 175 x 7 tyres)	1,225	
(G) Maintenance	500	14,598
Contribution		15,402
3. Less: Fixed cost per month:		
(a) R.T.O. permits @ Rs. 400 for 5 years* (only AP State) 400 / 5 x 12)	7	
(b) Route tax for 3 months Rs. 1200 (i.e. 1200 / 3)	400	
(c) Fitness certificate per month	100	
(d) Salaries (i) Driver 2,000 (ii) Cleaner 500	2,500	
(e) Full insurance for Rs. 8000 (8000 x 12)	667	3,674
Profit in operation		11,728
4. Less: Financial expenses		
A. S.B.H. - Hanwada 2,22,000 @ 12.5% in 72 months	3,469	
B. SETMAH - MBNR 50,000 @ 6.5% in 50 months	1,065	
C. Own contribution 46,115 @ 6.5% in 36 months	1,537	5,657
5. Depreciation per month (3,18,115 / 20 x 12)		1,325
Profit after depreciation		4,332

(*Source:* Cost turnover figures given by the beneficiary during the interview by the Researcher on 28-4-1995.)

* The difference in permit fee from that of case 1 is due to the nature of the vehicle. The Allwyn Nissan was a passenger vehicle whereas the DCM Toyota in this case was a freight carrier.