

Technical Report

SUPPORT SYSTEMS FOR ENTREPRENEURS

by

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INDIAN INSTITUTE OF MANAGEMENT

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Why Support System?

Entrepreneurial development is the sine qua non of the process / of industrialisation of developing economies. There are two most important inhibitory factors limiting the supply of local entrepreneurs in developing economies: available supply of capital and managerial skill. Often the traditional social structure of a developing society enhances the inhibitory factors in the sense that the entrepreneurial culture is restricted to a very small group of people in whom the capital and managerial skill are concentrated perpetuating an exploitative class structure. In the policy context, therefore, some governments of developing countries deliberately institute measures to promote indigenous entrepreneurship through the provision of capital and other facilities for the improvement of skill among the potential entrepreneurs. Government of India has adopted such a deliberate policy of entrepreneurial development, particularly with reference to small scale industries sector. The legal, structural, functional and organisational measures being instituted by the Government of India is aimed to create a support system in order to: a) attract more and

more people irrespective of their class, creed and caste to entrepreneurial ventures by, b) minimising risk and facilitating decision making among the potential entrepreneurs which will c) help generating an entrepreneurial culture on a broad social framework thereby d) contributing to national growth/development, and more equitable distribution of wealth.

Given the availability of capital, skill, and favourable socio-cultural setting, entrepreneurship may develop; but these are not sufficient in themselves to ensure its accelerated expansion. Opportunity is also essential and opportunity cannot always be commanded in a post-colonial developing economy like India. It has to be provided by the government through a support system which in essence becomes a policy of protectionism. Critics of protectionism tend to emphasize that such a policy may have adverse effects on the efficiency of distribution and on basic entrepreneurial motivations and therefore may kill the inherent basic concept of entrepreneurship development by way of creating dependency in a 'green-house' environment. The argument against protectionism may perhaps be valid for a kind of society like England or other European countries during industrial revolutions when the factors of production had a high degree of mobility and opportunities were not only numerous but accessible and known to many. In the present politico-economic context, particularly as it obtains in a developing country

like India, the criticism against protectionism in the form of support system becomes completely otiose. In evaluating the Gujarat Entrepreneurship Development Programme, the Expert Study Group rightly observed:

"To accelerate growth of entrepreneurship, it is absolutely necessary to develop various support systems at least at the initial stages of growth..... Such support system should function till such a time a critical number of entrepreneurs in the society is developed, so that entrepreneurship does not remain isolated, individual dominated concept but a social reality which has become an integral part of the culture, or culture itself. Only systematic and organised nurturing of entrepreneurship would ultimately generate pressures on the existing socio-economic and political institutions, cultural attitudes, practices and values towards modernization.*

Supportive Needs for Entrepreneurship Development Process

But, what kind of support system and how much of it is needed? The question is crucial in view of the policy of development of small scale industries through self-employment oriented entrepreneurship development programmes. Firstly, such programme inevitably ends up with a mixed bag of potential entrepreneurs with varying socio-economic backgrounds and therefore require varying levels of inputs from the support system. The nature and extent of help required by a potential entrepreneur with

* Cited by PC Suri, 1975, Philosophy and Strategy: Entrepreneurship Self-Employment as Peoples' Movement, National Alliance of Young Entrepreneurs, New Delhi, p.93

business-family background or with engineering education background, for example, will be different from the one who does not have any business background or any technical education. The only common denominator of these new entrepreneurs is supposed to be their enthusiasm and determination, which again vary between person to person depending on various factors. Secondly, by its very nature, small scale units tend to have some inherent limiting characteristics operating against them, that is, the vicious circle of weak capital base, easy vulnerability to environmental pressures, and lack of organisation. An entrepreneur of a small scale unit, for example, is most often an owner-manager, performing the roles of technician, production-line manager, marketer/seller, financial manager and so on - all simultaneously. The manifestation of vulnerability of the small scale unit to the pressures of these limiting factors, of course, vary greatly in degrees depending on the product line chosen, its environment and the background of the entrepreneurs. It therefore signifies a kind of interdependence of problems which typifies the entrepreneurship development programmes for small scale units.

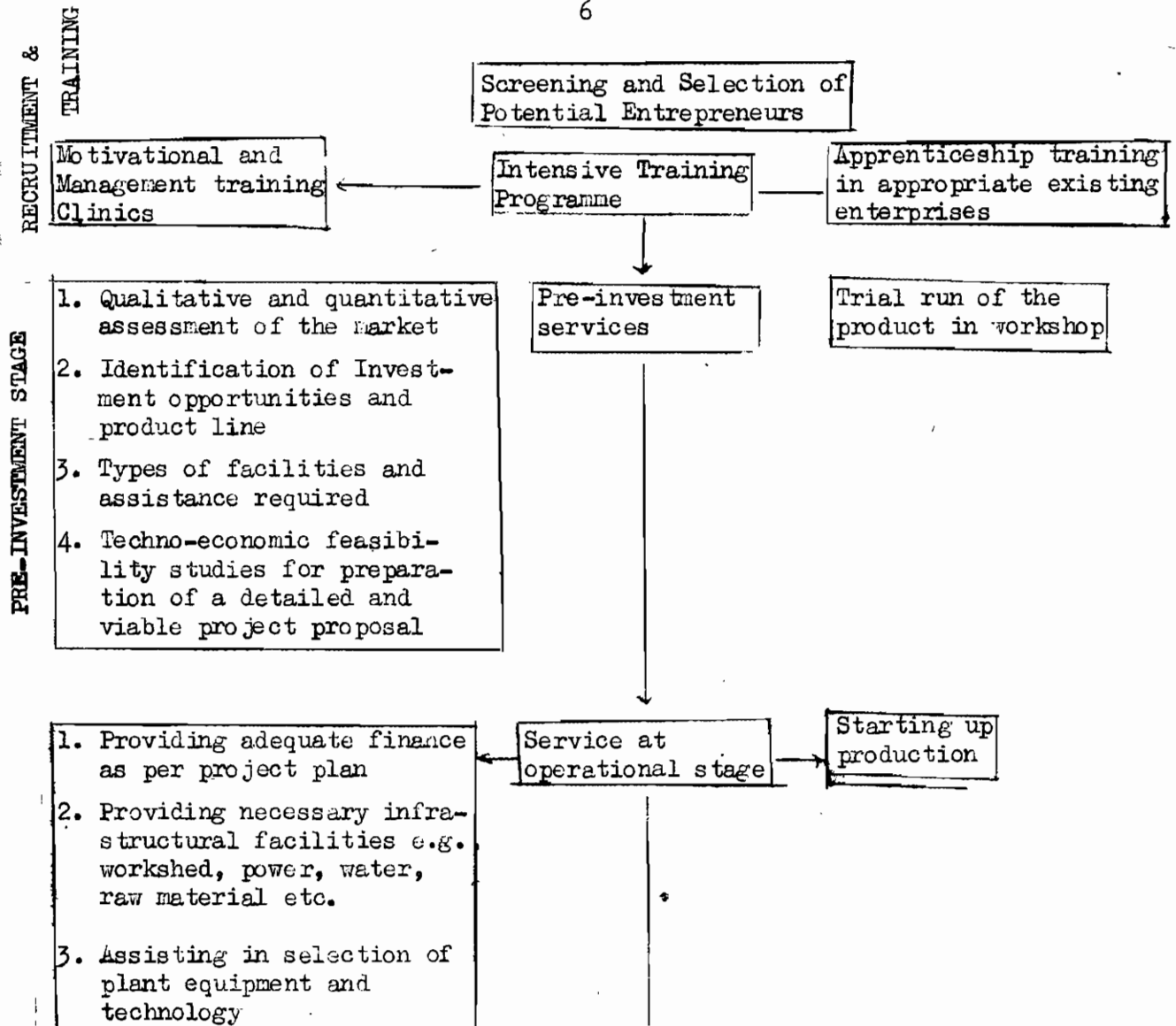
Given the variations in degrees, the most frequently encountered problems of small scale entrepreneurs are in the following directions:*

- a) Management
 - i) Poor Working Capital Management
 - ii) Lack of organisation
- b) Marketing
 - i) Too competitive a market
 - ii) Dependence on one buyer/very few buyers

* These problems were identified and reported in Role of the Bank in the Effective Growth of Small Scale Industries, Report of the Study

- c) Finance
 - i) Inadequate bank finance
 - ii) Financing capital or non-productive expenditure out of working funds
- d) Production
 - i) Raw material shortage
 - ii) Power shortage

Looking at the problems listed above one can work out a suitable support system linked with provision of entrepreneurship development programmes. While the provision of the inputs of a support system is a continuous service required by entrepreneurs, what kinds of inputs to be provided to what extent and when should be tailored to the stages of entrepreneurial development process. The process starts right from the selection of entrepreneurs setting up of the industry and bringing it up to the production stage to the point of break-even. In other words, for the convenience of tailoring a need-based (or problem-based) support system, the process of entrepreneurial development may be divided into four sequential stages: selection and training, pre-investment stage, operational (construction/installation production) stage, and post-investment stage. As shown in Fig.1, the kinds of inputs or services needed to be provided with varying emphasis are different for different stages of development.



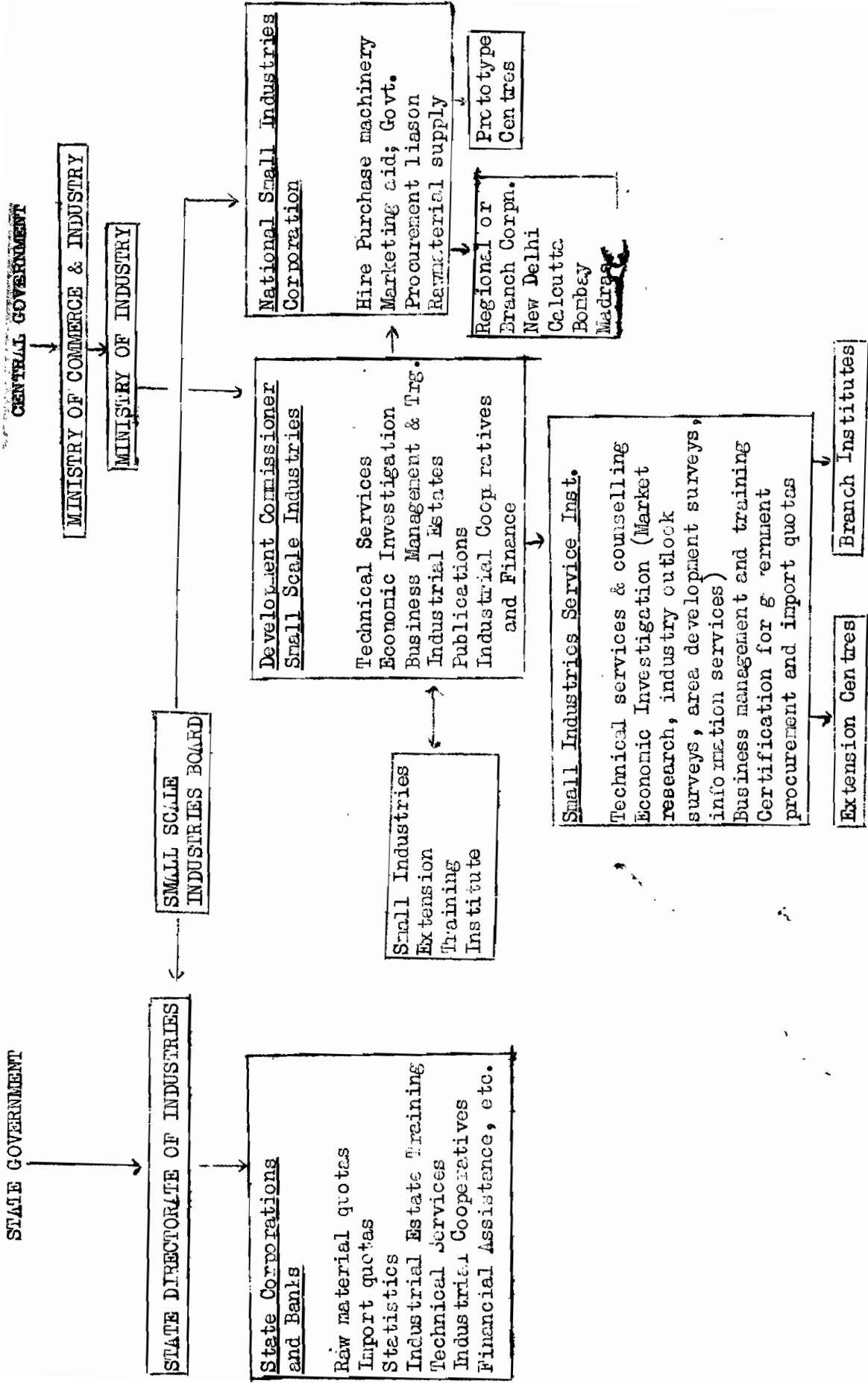


Fig. 2 Support System Institute*

* Fig. 2 is adopted from E Staley and R Morse, Modern Small Industry for Developing Industries McGraw-Hill Book Co., Tokyo, 1965 p. 397

It will be wrong to suggest that the huge organisational structure of the support system as evolved in India over the decades has remained merely a travesty of facilitating agency for entrepreneurial development. It certainly filled a vital gap in the industrial development programme of India; it met initially some widespread needs of the potential entrepreneurs; it has inevitably drawn official and political attention to the problems of entrepreneurial development in the small scale sector; and, above all, it has provided an experiential knowledge about the problems and difficulties in the practical implementation of entrepreneurship development programmes in a developing economy. However, there are weaknesses in the system.

Strengthening the Support System

What are the weaknesses of the existing support system? It is necessary to identify the weaknesses or limitations in order to evolve an effective programme. One of the crucial problem-areas in the system has been the selection of potential entrepreneurs. With the constraint of available resources, it is both economically and socially important that everyone of those few selected for entrepreneurial development should start an enterprise and run it successfully on a self-sustaining basis within a shortest period of time. It is not only the responsibility of the support system to develop a successful self-sustaining entrepreneur, but also a social responsibility of an entrepreneur to repay the society which has invested its scarce resource for his development. Just as the support system

should aim for the successful end of the programme, the tax payers of the society demand the same from the entrepreneur. This mutual obligations should be clearly understood both by the relevant agencies of the support system as well as by the entrepreneurs themselves. Otherwise, it remains an one-sided game giving the option to one or the other side to misbehave. It is partly due to lack of proper appreciation of the kind of mutual obligation, there is, on the one hand, some tendency towards target-oriented approach among the supporting agencies in terms of number of units set up rather than the continuing viability of the units, and, on the other hand, there is often the absence of financial discipline or general mismanagement leading to sickness of the unit and eventual dropping out on the part of the entrepreneur. Once this weakness in the system is accepted, it has implications both at selection and post selection stages. In the selection stage, it is essential to assess the entrepreneurs' sense of responsibility towards meeting this mutual obligation, and in the post selection stage it is important to communicate to the entrepreneur the precise nature of his social obligations. Unfortunately, until now a uniform single scientific selection procedure has not yet been evolved which is foolproof in the sense that it would avoid wastage of scarce resources and dangers of promoting wrong persons. It is also doubtful whether such a foolproof selection procedure can be evolved which essentially deals with human beings. But this does not preclude the scope for improvement. One can, for example, examine various selection techniques applied by various agencies with concomittant results and then arrive at some common factors to be considered in the selection

procedure which should be flexible enough to be modified and adapted in varying environmental conditions. This is an area for immediate research.* The crucial point is that there should be a forum where various agencies can share their experiences about the whole entrepreneurship development programmes including selection procedures. The support system should provide such forum, either in the form of seminar, or workshop or a journal - as an element in-built into it.

The flexibility in the selection procedure according to environmental variations or variations in objective is a very important dimension in view of the socio-political goal. A generalised rigorous selection procedure may, for example, very likely amount to rejection of the 'backward' candidates - a 'backwardness' resulting out of intellectual bankruptcy due to the existing socio-economic structure rather than the inherent entrepreneurial quality. This should not happen. But how to ensure it in a common selection procedure? The answer is not the dilution of the selection procedure, but a deliberate attempt to include 'backward' candidates into the programme. To that extent the selection procedure should have to be flexible and resource has to be invested. The society should have to bear this cost for social justice. An Over-view Committee comprising members from the concerned agencies and public life should be formed to evaluate and ensure the implementation of such flexibilities in the selection procedure as well as to provide operational guidelines.

* The Indian Institute of Management, Ahmedabad has already undertaken a research in this line and the results would be available shortly.

Another serious problem is the proper coordination of the various agencies of the support system involved in the programme. This is of course is directly related to the size of the support system or more specifically, to the large number of agencies providing various specific services for the entrepreneurship development programme. There are, for example, the Central Government level agencies like IDBI, IFCL, IFICI, IRCI, NSIC, SIET, SISI, TCO, Nationalised Banks, etc providing specific services. Similarly, in the state government level, there are agencies, such as Directorate of Industries, Industrial Investment Corporation, Agro-Industries Corporation, Banks, etc. Apparently each of these agencies has specific services to provide and tasks to perform and only through the provision of a combination of some of these supporting services a desired result may be expected. Now, one does not expect that a potential entrepreneur would knock from door to door for information and services. If he has to do that, he would soon be disillusioned with bureaucracies of these agencies, and by the time he gathers all information nothing will be left in his entrepreneurial motivation to pursue the effort further. It is therefore necessary to provide information and help getting the necessary supporting services through a centralised single agency. For this to happen obviously needs a close linkage and coordination between all the agencies and government departments involved in the support system. It is in this regard Gujarat-model seems to be useful. In Gujarat, the Directorate of Industries has provided the mechanism of coordination at the operational level by instituting a coordination machinery, Industrial Extension Team (INDEXT) presided

over by the Industries Commission and comprising the Chief Executives of all the four Corporations (GSFC, GIIC, GIDC, GSIC) and two senior colleagues of the Industries Commissioner. At the state level, a single focal organisation should be identified which would provide by itself or help to provide through its active liason with other agencies the essential support information and services to the entrepreneur. Perhaps Small Industries Corporation or State Financial Corporation or Industries Directorate itself could play this role. The active liason with various agencies and government departments would be facilitated if the corporate coordinating body INDEXT is represented by various agencies of the Central Government and banks.

It is significant to note that almost all the agencies in the support system are in one way or the other providing services in the finance-related assistance programmes. In other words, they are basically financial institutions. The predominance of financial institutions in the support system is probably due to the realisation that lack of capital is one of the most serious inhibiting factors for entrepreneurial development in a developing economy like India. This is certainly true. But as said earlier, finance or capital is not the only limiting factor; more important perhaps are the factors like entrepreneurial motivation and managerial skill, that is, the development of 'Man' as an entrepreneur. By mere provision of capital and other incentives and concessions would not ensure the fulfilment of social objectives of supply of successful entrepreneurs and distribution of wealth. These agencies and institutions should not only be

a gate-keeping agencies for financial and other physical incentive or assistance programmes, but also have to assume a new role - a developmental role.

By its very nature and traditions, financial institutions in a resource scarce developing economy happen to have a legacy of being conservative, and excessively security - oriented organisation which basically concern themselves with schemes rather than the people. As a direct consequence, these institutions tend to have a rigid hierarchical bureaucratic organisational structure which treat its clients most impersonally. The beneficiaries concerned also tend to perceive the financial institutions in the same fashion. This point may be highlighted by presenting a tiny fragment of the data on the experiences of 100 rural entrepreneurs of one of the most prosperous areas of Gujarat, Anand taluka. Apart from the fact that more than 80 per cent of these entrepreneurs were found to be completely unaware of the various financial assistance programmes available through the support agencies (or financial institutions), they could not believe that these financial assistances could be obtained easily without much delays and harassment. Whatever little experiences some of them had in dealing with the financial institutions like Banks, were mostly a pathetic tale of harassment, delays, bribery and corruption. Despite the fact that most of these Anand entrepreneurs were in dire need of financial assistance for expansion or even survival of their enterprises, they were generally reluctant to approach the organised financial institutions for loan; many of them tried to solve their financial necessities through known private money lenders or relatives or some interest associations of caste or community. On the other hand, one finds a paradoxical

situation in the most commonly repeated complaints by the financial institutions that people do not come forward to take the advantages of their services. What all these indicate is a wide credibility gap between the beneficiaries and these institutions. Unless these financial institutions build up the credibility it is imperative to make people aware of the services available through a proper communication programme and then persuade these people by providing services without unnecessary hinderances. In other words, what it needs at this stage is to bring the services to the people instead of waiting for the people ask for it by themselves. This is the developmental role - a role which is people-oriented.

Are the financial institutions capable of assuming the developmental role? The question is, in fact, not whether they can or cannot, but how soon? It must be understood that the changing traditional attitudes and role-behaviour is extremely difficult and a time-consuming process. We must therefore search the ways which will facilitate the process. One way to enhance the process is the effective and active coordination between the predominantly financial institutions and predominantly non-financial developmental institutions. The Gujarat model as mentioned earlier is probably a good example of such coordination. This of course, assumes and for that matter a significant assumption that the predominantly developmental institutions are effectively performing people-oriented developmental roles. Such a coordination would provide a mutual learning experiences for both

groups of agencies or institutions. But in order to make such coordination a continuous sustaining process in the support system, two things are essential: one, a training programme for all the staff in these institutions or agencies including institutions which are predominantly developmental in activities. Training should be given not only to the supervisory or executive staff, but also to the non-supervisory or clerical staff. For, it is a well known fact that the immediate contact-point for the client is these non-supervisory clerical staff in these institutions who most often act as gate-keeper for the ultimate decision-making authority, and therefore may cause unnecessary delays and harassments. Examples of such harassment or delays are abound. In the training programme one of the most important motivational inputs should be development of power motivation, and not achievement motivation so that they are able to assume the role of entrepreneurial managers rather than entrepreneurs. Second, a structural change is often called for in the organisation of these institutions (both financial and developmental). In the kind of programme as entrepreneurship development, no financial institutions can remain purely financial in its functions. Similarly many developmental institutions have to have some financial role to play. It is therefore essential to functionally divisionalize these institutions into two, dealing (1) financial matters, and (2) developmental functions. Such divisionalization would clearly define the interfaces between the institutions and smoothen the process of coordination. Furthermore, it seems imperative that the people-oriented institutions should have

to be dynamic in the sense that the decision-making process is decentralised to the maximum possible extent with flexibilities in-built according to the situations. This means reducing the bureaucratic and vertically hierarchical organisational structure of these institutions. In order to achieve this, it would require horizontal expansion in the organisations with a relatively large number of technical supervisory staff of similar ranks with equal responsibilities and a bare minimum of clerical or non-technical staff. It must be remembered that the major function of these support agencies is to provide technical and supervisory services, not routine bureaucratic or clerical services.

The success of an enterprise is directly related to the ability to plan for a viable project. As Pathak* (1975) observed:

"A large part of the problems that entrepreneur face during the inception and even operations stage and such entrepreneurs also include those who had some related experience in the line has its roots in insufficient work at the stage of project planning. When persons entering the field of industry have no exposure to business and industry, a detailed examination of the market and finances involved with reference to the product become absolutely essential."

This has been the experience of almost all the agencies in the support system as well as of various committees and study teams. In fact, the agencies are finding it difficult to feed the increasing numbers of participants in the entrepreneurship development programme with economically viable and technologically feasible projects. The supporting agencies should have to have an inventory of viable

* H N Pathak, "Development of Small Enterprises and Industrial Growth", The Economic Times December 23, 1976

project ideas. The key areas to be assessed in estimating the viability of a project are: market estimates, selling prices, raw material sources and prices, production costs etc. A realistic assessment of these key factors will determine "whether the targets stated in the scheme are achievable within the parameters of business environment and the entrepreneurs' managerial capability.*" Obviously, this is a highly specialised and professional function, particularly the marketing aspects and therefore should be left to the professionals. In other words, what it needs is a sound professional consultancy services, perhaps a panel of recognised outside consultants and professional institutions could form a cell of consultancy services as an integral part of the supporting agencies, which could be utilised as and when necessary. It is not imperative that outside consultancy services will be needed in each and every case; it has to be decided on the merits of each case. But the fact that such professional services are available will boost up the morale of the entrepreneurs as well as minimise the risk of failures.

The consultancy services proposed above should be an integral part of the support system in the sense that it would not only assist in project planning, but also provide continuous counselling during and post-implementation stages. In fact, one of the reasons why such consultancy agency is suggested is that, given the bureaucratic structure of the government agencies, particularly, the financial

* Report of the Study Team of the State Bank of India, 1975,
Op. cit p.20.

agencies, it is not always possible to provide such continuous individual attention to each and every entrepreneur. Yet this is exactly what is needed at the initial nurturing stage. Bringing in external consultancy services in the support system will also have beneficial effects on two major fronts: one, a close association of a trainee entrepreneur with the consultancy agency will provide him a practical experience and management skill in how to prepare a project plan; how and where and why about the information to be collected, and what kind of organisational and managerial skills required to run an enterprise. Thus, the training programme would become a continuous process through a management clinic system rather than a more class room teaching. On the other hand, the burden of the supporting agencies in following up the units in terms of proper financial control and management information system would be lessened to a great extent.

The question is: Who pays for the external consultancy services? It must be emphasised here that not every one would need such services. There would be always some entrepreneurs who are quite capable and would be successful with the help rendered by the normal process of supporting agencies. But even in these cases, the training should be imparted through a management clinic system by the supporting agencies (without any help from external consultancy services), not by class room teaching alone. For those who need consultancy services, the cost should be borne by them perhaps at a subsidised rate. The cost of consultancy services may be incorporated right at the project

planning stages while working out the financial requirements. The financial institutions may bear the cost fully or partially in exceptional cases particularly in the case of deserving participants from backward areas or low-income low-cast people.

Support System for Backward Areas

To complete the story, it is perhaps necessary to make a brief mention of the types of support system needed for entrepreneurial development programme in backward areas. Keeping aside the debatable definition of what constituted a 'backward area', enterprise development in 'backward regions' is now a well recognised philosophy all over the world. The question of balanced regional development and social cost-benefit analysis is intimately tied with this philosophy. The magnitude of the problem of income-inequalities and imbalance in growth/development can be seen from the fact that in India today, there are 241 backward districts in various states and Union territories comprising 71% of the total area of the country, and 58% of the country's population. It is therefore high time that a suitable machinery of support system is created, comprising persons committed to the programme of speedily developing these so called backward areas, which so far have remained untouched by the mainstream of industrial-economic development that is going on in the country.

In a developing economy, 'backward areas' pose particularly special problems for entrepreneurship development programmes.

Backwardness of an area assumes the shape of a perpetual vicious circle in the sense that since an area is backward, it is poor in both physical facilities and human skill, and just because it is poor, it cannot spend adequately on the development of the basic facilities, and because of the lack of facilities, the few available entrepreneurs are diffident and reluctant to go to such areas inspite of many incentives, concessions and subsidies. Not that the policy-makers and administrators are not aware of this problem. The fifth plan considered the development of backward regions as of critical importance. Quite clearly in the day it was realised. Since the problems are special, the services needed should have to be of special kind. As a result of this realisation two working groups were set up: (1) Pande Committee recommended the criterial to be followed in identifying backward areas, and (2) Wanchoo Committee to consider the nature of concessions to be given for industries and to examine financial, procedural and fiscal incentives etc. The Central Government accepted the recommendations and had evolved a support system to provide incentives to entrepreneurs located in backward areas. Essentially, the support system involved are the same as discussed earlier operating at three levels: i) Central Government; ii) The financial institutions; and iii) The State Government. The recommended incentive scheme encompasses a capital subsidy on fixed assets, concessional finances by financial institutions, the development of plots in backward areas, the provision built-up accommodation, the supply of machinery and equipment from the National Small Industries

Corporation on minimum initial earnest money, exemption of payment of income tax for a period of ten years on the profits upto 20% transport subsidy, exemption of octroi duty and sales tax, and disincentives for avoiding the overcrowding of industries in already developed zones etc.

The programme was launched only in October 1970. In spite of the fact that the Government has initiated many measures for the development of backward areas, the measures taken so far have not had any appreciable impact, except a few relative success stories. In the execution of the programme it has been emphasized that the States would have to bear the main responsibility for development of backward regions and the Central Government would actively participate by making special allocations, special incentives for the flow of investments etc. In effect, the biggest advantage of the facilities offered under the programme has been obtained by those few states which were quickest in developing infrastructural facilities and in which the administrative machinery was geared to take up the challenge. Maharashtra comes first in this regard followed by Gujarat. Behind the success story of Maharashtra lies the exemplary model of hardwork of SICOM. Following the model of supply system as discussed earlier, SICOM did not consider itself merely a financial institution offering some routine financial assistance, but also offered all types of non-monetary assistance to entrepreneurs such as evaluation of possible location for industries, technical investigation, obtaining clearance from Government, improvement in infrastructure etc. Added

to these services was SICOM's dynamic persuasive salesmanship to attract and win over entrepreneurs to set up enterprises in backward areas. SICOM's remarkable performance may serve as a guiding model for other stage agencies in the support system.

If we critically examine SICOM's functioning, several points emerge clearly which has already been discussed earlier. At the risk of repetition, these points may be emphasized again.

1. It is necessary to build a mutual trust and credibility between the supporting agency and the local beneficiaries. These necessitates a dynamic persuasive campaign to make people aware of their responsibility and to motivate them to do something on their own for the development of their region. This can be done through imaginative propoganda by the supporting agencies, education through district workers etc. Simultaneously, the State agencies should assure the entrepreneurs of full backing of their efforts;
2. A speedy implementation of the incentive measures and supporting services without causing unnecessary delays and harassments;
3. To avoid overlapping between the policies of several supporting agencies, a proper coordination in policies and implementation should be ensured;
4. The supporting agency must not act merely as a financial institution, it must be able to provide all round integrated services to the entrepreneur through a management clinic approach;

5. Entrepreneur development in backward areas should give local people a sense of participation. This can be done through training and development of the local entrepreneurial talents and by selecting industries or enterprises which are technically suitable and economically viable from the point of view of the local resources. The choice of industries to be located in backward area is very relevant. A comprehensive survey of the resource potentialities in the backward areas is urgently needed in order to determine the feasibility of enterprise potentialities. This is a highly professional job which can be undertaken by the state level agencies in collaboration with professional consultancy services or in collaboration with professional institutions;
6. Lastly, but most important factor is the people manning the supporting agencies. Not only these agencies should be strengthened by competent technical persons to carry out promotional activities in backward areas to help and guide entrepreneurship development, but they should have proper sympathetic attitudes and commitment to the philosophy.

Apart from the aforementioned factors, two points should be considered: firstly, backward areas are critically short of skilled labour. In spite of the fact that 124 out of 357 Industrial Training Institutes are located in the backward areas, there seems to be serious deficiency in the training programmes. These institutes are criticised for lack of standard for being unrelated to the development of the industry in the area concerned. As a result, the entrepreneur-

manager tries to recruit from outside the area concerned defeating the purpose of the programme. The supporting agency should have to cater to the relevant training needs for developing local skilled labour force. Secondly, no serious attempts have so far been made to monitor the implementation and development of the backward areas suffered to that extent. Given the socio-economic structure, it is futile to expect that the face of a region could be changed merely by locating enterprises in backward areas; neither it can ensure the fulfilment of an objective of improving the living standards of the poor people in these areas. To achieve this objective needs close monitoring of the implementation and progress of the programmes by a suitable agency. A coordinating over-view committee suggested earlier should be able to monitor the progress in right direction and assist in removing difficulties and provide guide lines.

Entrepreneurship development is essentially a long term programme. The supporting agencies involved in the programme should function with proper discipline, commitment, and a sense of urgency. A much larger, dedicated and integrated efforts are essential to bring about greater dispersal of industrial activities. This is the special role to be properly understood and implemented by the supporting agencies. However, euphemistic these required characteristics may sound like the machinery of supporting system for entrepreneurial development should have to be evolved around these principles, be it for backward or for developed regions. A caveat should be entered here. The monitoring system suggested in the model whether or not implemented

through a corporate coordinating body or over-view committee, should not take the shape of merely a regulating or restricting agency, but a facilitating lobby-agency ensuring discipline and proper distribution, which in ultimate analysis would require local participation and political will. It is precisely the lack of political will and commitment, not the provision of supporting services which could not enable the existing supporting agencies in various states to make desired progress.