CHAPTER III

REGIONAL DISPERAL POLICIES IN INDIA.

The experience of developing countries reveals that economic activity tends to concentrate in one or few urban areas, giving rise to the problem of regional disparities which is universal in nature and these disparities must be progressively reduced through regional policy, which is accepted as a means to promote development. The goal of regional policy, however, is not to develop all regions equally but to develop each region to its maximum potential. The regional development policy should therefore follow the criteria of "selective dispersal" choosing growth points within the less developed areas of the country.

The industrial dispersal policies heavily depend on incentives and control to promote industrial investment in

1. There are lagging regions even in most economically advanced countries, and there are developed regions even in most economically backward countries. For details see, Rodwin, Llyod., 'Choosing Regions for Development', in Friedmann and Alonso (ed). op.cit., 1964, pp.37-58 and also reprinted in Misra. R.P., (ed)., 'Regional Planning Concepts, Techniques, Policies and Case Studies', Institute of Development Studies, Prasaranga, University of Mysore, Mysore, 1969, pp. 53-72.


backward regions. The need for incentives arises on the account of the fact that the location costs are high in the backward regions, compared to other areas. The attempts to reduce these location costs include direct public investment in social overhead capital and financial incentives. This policy is supported by appropriate controls over location of industries in the congested regions.

A brief look at industrial dispersal policy in India indicates that in the initial phase it concentrated on location of public projects in backward areas, development of infrastructure supported by a licensing policy to control the industrial location in advanced regions. In the later phase it adopted a more direct approach to promote industrial development in backward areas in the form of financial incentives and subsidies.

Industrial Policy

The need for a suitable industrial policy to bring about balanced regional development and development of

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4. Location costs are, defined by Richardson, as that part of the average costs over space (average space costs are equivalent to average cost of output which include basic production over the basic premium or the additional costs to be incurred in bringing such factors as raw materials to the factory location. For details see, Richardson, H.W., 'Regional Economics - Location Theory, Urban Structure and Regional Change', Weidenfeld and Nicolson, London, 1976, p. 60.
industries in backward areas was recognised even before independence, by the Economic Adviser to the Government of India. Taking cognisance of the findings of two different Commissions in Great Britain, namely the Barlow Commission, and the Regional Development and Location of Industry. The Study Group of Political and Economic Planning, pointed out the need for an even distribution of industry as between regions in order to secure a balanced development of towns. It also emphasised on giving special encouragement to any scheme of industrial expansion in backward areas.

Though the Industrial Resolution of 1948 carried no direct reference to the problem of regional imbalances in industrial development, the problem was taken note of in the Industrial Development and Regulation Act of 1951.

The major objectives with which the Act was promoted were:

1. Development and regulation of industrial investment according to plan priorities and targets.
2. The protection and encouragement of small industries.
3. The prevention of concentration of ownership of industries.
4. Balanced development of different regions in the country.

Licencing policy was the main instrument in the Act to promote balanced regional development.

Industrial Policy Resolution of 1956 emphasised the need for a balanced growth of industries in the country and also made a specific reference to the problem of industrial development in backward areas. In order that industrialisation may benefit the economy of the country as a whole it is important that disparities in levels of development between different regions should be progressively reduced. The uneven growth of industries in different regions of the country is due to uneven distribution of natural resources. Further the concentration of industries in certain areas has also been due to the availability of other factors like power, water supply and transport facilities, therefore, national planning trust should ensure that these facilities are steadily made available to areas which are lagging behind in industrial development. Thus the emphasis was on the provision of infrastructure in industrially less developed regions/areas.

The Second Five Year Plan stressed the need for reducing regional imbalances and suggested a three-fold strategy for industrial dispersal.

1) The National Development Council recommended programmes for setting up decentralised industrial production.

2) In the location of new enterprises, consideration should be given to the need for developing a balanced economy for the different parts of the country.

3) Steps to be taken to promote greater mobility of labour between different parts of the country and to organise schemes of migration and settlement from more to less densely populated areas.

Thus, the Plan urged the importance of reduction in regional imbalances and observed that the less developed areas should receive due attention. The pattern of investment must be so devised as to lead to balanced regional development, and the programme of industrial estates was initiated during the plan period.

Further during the plan some public sector projects were located in Bhilai, Rourkela, Durgapur and Neyveli to help the development of surrounding backward areas. Government also promoted development of infrastructure facilities in the backward regions.

The problem received a real attention only in the Third Five Year Plan. A separate chapter was devoted in this plan to the "Balanced Regional Development" with a special emphasis on the development of backward areas.

7. Government of India; Second Five Year Plan; Planning Commission, New Delhi, 1956, p. 37.
Observing the concentration of small industries near large cities and towns, it stated clearly that the emphasis in the implementation of the programmes in the Third Plan will be on encouraging the further growth of industries in rural areas and in small towns as well as in less developed areas having a good industrial potential.

The Fourth Five Year Plan stressed on infrastructural development in backward areas. This plan also states that balanced regional development and dispersal of economic activity are closely interrelated, as growth and diversification of economic activity in an underdeveloped regions may take place only if infrastructure required for this is provided adequately and programmes for conservation and development of natural resources undertaken.

The plan indicated equal awareness about the growing costs of urbanisation due to concentration of growth at few points. It is during this plan period a beginning was made by tackling the problem of larger cities and taking positive steps for dispersal through suitable creation of small centres in the rest of the area.


10. Ibid., p.434.


12. Ibid., p.399.
But these policies hardly had any impact on regional dispersal of industries. The licencing policy failed to promote any appreciable investment in industrial projects in the backward regions. Both the major Committees appointed to review the working of the industrial licencing policy pointed out about its failure to promote industrial development in backward areas. Hazari Committee pointed out that "the gains in terms of balanced regional development and wider distribution of entrepreneurs are, at best moderate. The licencing has served to channalise investment appears extremely doubtful." The Industrial Licencing Inquiry Committee (Dutt Committee) revealed that the policy favoured largely the industrially advanced states or backward areas in these states viz; Maharashtra, West Bengal, Tamil Nadu and Gujarat and even in these states licences were issued largely to the advanced districts.  

The National Committee on the Development of Backward Areas (NCDBA) has also pointed out about the failure of Licencing Policy in attracting industrial dispersal in the country.  


14. For details see, Department of Industrial Development Report of the Industrial Licencing Inquiry Committee (Dutt Committee), Government of India, New Delhi, 1969, pp.181-197.  

The location of public sector projects in the backward areas also were not able to contribute to the development of the surrounding backward regions. The Draft Five Year Plan pointed out that establishment of big industries, capital intensive in nature were not able to promote development in the backward areas. The experience indicates that "their spread effects are low and the surrounding areas continue to remain poor and underdeveloped. Infact, such development by creating a dualistic economic structure may pose more problems than it solves."  

Industrial Development In Backward Areas

A more positive approach was taken in 1968 by the Planning Commission by setting up two Working Groups. One for the identification of backward areas - "Pande Working Group" - and the other for suggesting fiscal and financial incentives for starting industries in backward areas "Wanchoo Working Group."

Pande Working Group:

The Working Group on "Identification of Backward Areas" commonly known as Pande Working Group 17 was appointed "to recommend the objective criteria to be followed in


identification of backward regions which would qualify for special treatment by way of incentives to be set up industries in such regions. Among other things, the broad techno-economic factors which are relevant to the establishment of industries on a regional basis should be taken into account, so that the grant of special concessions does not lead to irrational growth in industrial development.\(^{18}\)

The Pande Working Group suggested the following criteria for identifying industrially backward States and Union Territories:

1. Total per capita income.
2. Per capita income from industry and mining.
3. Number of workers in registered factories.
4. Per capita annual consumption of electricity.
5. Length of surfaced road in relation to
   a) the population, and
   b) the area of the State.
6. Railway mileage in relation to
   a) the population, and
   b) the area of the State.\(^{19}\)

On the basis of the above criteria the Group identified that Andhra Pradesh, Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Nagaland, Orissa, Rajasthan, Uttar

\(^{18}\) Ibid., p.1.
\(^{19}\) Ibid., p.11.
Pradesh and Union Territories except Chandigarh, Delhi, Pondichery as backward States/areas.

The Group also recommended the following criteria for identifying backward districts in industrially backward States and Union Territories:

1. District outside a radius of about 50 miles from large cities or large industrial projects.

2. Poverty of the people as indicated by low per capita income starting from the lowest 25% below the State average.

3. High density of population in relation to utilisation of productive resources and employment opportunities as indicated by:

   a) Low percentage of population engaged in secondary and tertiary activities (25% below the State average may be considered as backward).

   b) Low percentage of factory employment (25% below the State average may be considered as backward).

   c) Non and/or under utilisation of economic and natural resources like minerals, forest, etc.

4. Adequate availability of electric power or likelihood of its availability within 1-2 years.

5. Availability of transport and communication facilities or likelihood of their availability within 1-2 years.

6. Adequate availability of water or likelihood of availability during 1-2 years.

The above indicators suggested by the Pande Group for identifying backward areas stressed on per capita income, and levels of industrial developments and infrastructure facilities which are interrelated to each other.

Wanchoo Working Group.\textsuperscript{21}

The Working Group on "Fiscal and Financial Incentives for Starting Industries in Backward Areas" - Wanchoo Working Group - was set up with the following terms of reference.

1. To consider the nature of concessions to be given for encouraging the development of industries in the backward regions and in particular to examine procedural, financial and fiscal incentives.

2. To consider the role of State Governments and financial institutions in the development of industries in backward regions and also

3. To examine the type of dis-incentives that should be introduced to avoid concentration in metropolitan or highly industrialised areas.\textsuperscript{22}

The Committee was therefore asked to suggest both positive incentives and negative controls to develop industries in backward regions. The Wanchoo Group recommended the following set of incentives for attracting entrepreneurs to set up industries in the selected backward areas.


\textsuperscript{22} Ibid., pp. 2-3.
1. Grant of higher development rebate to industries in backward areas.

2. Grant of exemption from income tax, including corporate tax, for 5 years after providing for the development rebate.

3. Exemption from the payment of import duties on plant and machinery, components, etc., imported by units set up in backward areas.

4. Exemption from excise duties for a period of 5 years.

5. Exemption from sales tax, both on raw materials and finished products, to units set up in specified backward areas for a period of 5 years, from the date of their going into production.

6. Transport subsidy for reasons of special remoteness of certain areas, for taking out the finished products for a period of 5 years. Upto 400 miles the distance should be considered as normal and beyond that the transport cost for finished products should be subsidised for such backward areas as may be selected in the States of Assam, Nagaland, Manipur, Tripura, NEFA and Andamans. The transport subsidy should be equivalent to 50% of the cost of transportation in case of the backward areas specified in Jammu and Kashmir State.

In addition to these financial incentives the Group advocated certain special incentives to the entrepreneurs in the backward areas, inter alia, in the matter of fixed assets i.e. supply of developed plots, build-up accommodation, machinery and equipment etc.

Central Government Incentives and Concessions

Based on the recommendations of Pande Working Group

23. Ibid., pp. 16-17.

and Wanchoo Working Group, the National Development Council decided in 1967 to offer certain concessions and incentives to the industries set up in the backward areas. The package of incentives offered to the units in backward areas are as follows.

1. Central Investment Subsidy Scheme: This scheme was introduced in 1971 initially provided for outright subsidy at the rate of 10% subject to a maximum of Rs.5 lakhs on fixed capital investment viz., land building and plant and machinery. In March, 1973 it was further enhanced to 15% subject to a maximum of Rs.15 lakhs which was further enhanced to 20% subject to a maximum of Rs.20 lakhs from March 1, 1981 in respect of North Eastern Region and Sikkim. From April 1, 1983 the scheme was further modified and industrially backward districts were categorised into three categories viz., 'A', 'B' & 'C' with the following rates of investment subsidy.

Category 'A': 25 percent of investment subject to a maximum of Rs.25 lakhs.

Category 'B': 15 percent of the investment subject to a maximum of Rs.15 lakhs.

Category 'C': 10 percent of the investment subject to a maximum of Rs.10 lakhs.

The scheme continued up to September 30, 1988. Since the introduction of the scheme and up to March 31, 1989 a

total sum of Rs.827.46 crores has been reimbursed to states as per details given below in Table 3.1.

**TABLE 3.1**

**UTILISATION OF CENTRAL INVESTMENT SUBSIDY**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Five Year Plan</th>
<th>Period of Plan</th>
<th>Amount Reimbursed (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>IVth &amp; Vth Plan</td>
<td>1970-71 to 1979-80</td>
<td>69.04</td>
</tr>
<tr>
<td>2.</td>
<td>VIth Plan</td>
<td>1980-81 to 1984-85</td>
<td>222.71</td>
</tr>
<tr>
<td>3.</td>
<td>VIIth Plan</td>
<td>1985-86 to 1988-89</td>
<td>535.71</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>827.46</strong></td>
</tr>
</tbody>
</table>


The growing amount of investment subsidy indicates progress of industrialisation in backward areas.

2. Transport Subsidy scheme: This scheme covers the States of Jammu and Kashmir, Himachal Pradesh, Hilly districts of Uttar Pradesh, entire North Eastern Region including Sikkim and Union Territories of Andaman and Nicobar Islands and Lakshadweep. Upto March 31, 1983 the rate of transport subsidy was 50 percent of transport costs of industrial materials which were brought into and finished goods which were taken out of the selected areas between the locations of new/existing units and identified rail heads/ports. From April 1, 1983 it has been enhanced to 75 percent realising
the disabilities suffered by entrepreneurs in setting up industrial units in North Eastern Region, Sikkim and Andaman and Nicobar Islands and Lakshadweep, it has been enhanced to 90 percent (from September 1, 1986), later it was extended to Jammu and Kashmir and Darjeeling district in West Bengal. This scheme was in force till March 31, 1990.

Utilisation of Transport Subsidy.

Under this scheme, transport subsidy is first disbursed by the States and Union Territories and later on it is claimed from the central Government. Though the scheme was introduced in 1971, all the States started claiming the subsidy from 1976. A sum of Rs. 38.22 crores has been reimbursed to States and Union Territories, as detailed in Table 3.2.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Five Year Plan</th>
<th>Period of Plan</th>
<th>Amount Reimbursed (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vth Plan</td>
<td>1975-76 to 1979-80</td>
<td>00.00</td>
</tr>
<tr>
<td>2.</td>
<td>VIth Plan</td>
<td>1980-81 to 1984-85</td>
<td>06.02</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>38.22</strong></td>
</tr>
</tbody>
</table>

3. Concessional Finance: The public financial institutions such as Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Finance Corporation of India (IFCI) offer loans to industrial projects in backward areas on concessional terms. The concessions are in the form of lower interest rate, viz., 9.5 percent per annum against the present normal rate of 11 percent a reduced commitment change of 0.5 percent lower under-writing commission of 1.25 percent and 0.75 percent for shares and debentures respectively. 26

4. Income Tax Concession: Industrial units set up in backward areas are allowed a deduction of 20 percent in the profits and gains for 10 assessment years under Section 80 HH. 27 On the balance of profits and gains they can claim a further deduction available to all new industrial undertakings under section 80 I.

5. Central Assistance Scheme for Infrastructure Development. Realising that one of the impediments towards rapid industrialisation in backward areas is the absence of infrastructural facilities, the Government on April 1, 1983 drawn up a scheme for assisting the State Governments to


take up infrastructural development in one or two identified growth centres in each "No Industry District". The assistance from the Central Government is limited to 1/3 rd of the total cost of infrastructural development subject to a maximum of Rs. 2 crores per district.

Incentives Given by State Governments:

Apart from the incentives offered by Central Government, the State Government also give a large number of concessions to new industrial units or expansion of existing units in the States. This is on account of the fact that the major responsibility for development of backward areas, and removal of interregional disparities rests on the State Government which therefore, try to attract entrepreneurs and encourage them to set up units in the backward districts in a number of ways. These include the various subsidies and concessions offered by them such as power subsidy, subsidy on land/sheds, sales tax concessions etc. 28

Industrial Policies and Industrial Development in Backward Areas – Recent Trends.

A stringent location policy was introduced in 1977, under which no new industrial units were to be set up within certain limits of metropolitan areas and urban areas. The Government attached great importance to balanced regional

28. NCDBA: op. cit., p. 68.
development of the entire country so that disparities in the levels of development between different regions are progressively reduced. The Government has noted with concern that most of the industrial development that has taken place in our country since independence has been concentrated around the metropolitan areas and large cities. Therefore, the Government decided that no more licences should be issued to new industrial units within certain limits of large metropolitan cities having a population of more than one million and urban areas with a population of more than five lakhs as per the 1971 census. 29

To achieve rapid increase in employment, productivity and income of industrial workers, the focus of development of industries was shifted from cities to small towns and villages, with emphasis on development of small and cottage industries. To implement this policy, the Government launched the District Industries Centres (D.I.C's) programme on May 1, 1978 to provide a focal point for the promotion of small, tiny, village and cottage industries and to offer all the services and support to the decentralised industries sector under single roof at the pre-investment and post-investment stages. The DIC was expected to work as a decentralised agency to promote industrial dispersal in the district economy.

The Industrial Policy of 1980 put forward the fact that rapid and balanced industrialisation is necessary to improve the lot of the common man in the shape of increasing availability of goods at a fair prices, larger employment and higher per capita income. Industrialisation is also essential to provide support for agricultural and for the development of infrastructural facilities like energy and transport.

It stressed on the development of small scale sector with a view to generate employment and provide for wide dispersal of industries over the geographical space specially in backward areas by restricting the volume of production in the large scale sector and by differential taxation or by direct subsidies.

National Committee on the Development of Backward Areas:

The Planning Commission set up National Committee on the Development of Backward Areas (NCDBA) under the chairmanship of B.Sivaraman.

The terms of reference of the Committee are:

1. To examine the validity of the various concepts of backwardness.

2. Reviewing the working of:
   a) The existing plans for dealing with the general development problems of backward areas and

b) The existing schemes for stimulating industrial development in backward areas such as the schemes for concessional finance, investment subsidy, sales tax, concessions etc.

3. Recommending an appropriate strategy or strategies for effectively tackling the problem of backward areas.¹³¹

The National Committee's approach for identification of backward areas has been based on the recognition of various types of fundamental backwardness. The areas are specified as tribal areas, drought areas, chronically affected areas by floods and coastal areas.

Industrial backwardness, however, is a category apart and is not a matter of environmental constraints. The problem of industrial development of backward areas has engaged the attraction of policy makers for a long time. The National Committee has dealt with this problem in detail in three reports, viz.

1. Report on Industrial Dispersal
2. Report on Village and Cottage Industries; and

These reports deal with the entire range of manufacturing activity from household industries to large scale industrial projects.¹³²

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32. NCDBA: Ibid., p.62.
The Committee has observed that the present pattern of location of industry is a consequence to a large extent of the early phase of industrialisation in India. The major industrial centres were Bombay, Calcutta, Madras, Delhi, Ahmedabad and Bangalore. The share of these centres in manufacturing employment rose from 4.7% in 1921 to 9.6% in 1951 and 12.9% in 1971. 33

It evaluated the performance of existing schemes in promoting industrialisation in backward areas and pointed out that though the Central subsidy and financial assistance to some extent have favoured dispersal of industries in the backward states but the larger share in investment subsidy and concessional finance provided by financial institutions went to the developed states. The Committee therefore concluded that, there is a scramble for giving incentives to attract industries to the states, with the result, the urge to grab industrial units is working against the interest of the backward states. Hence, the net effect of State Government subsidies is that dispersal has not taken place and the entrepreneurs has gone to the more developed parts of the State. In this sense, the purpose of utilising the central incentives to disperse industries has been blunted. 34

33. Ibid., p.62.
34. Ibid., p.69.
The Committee suggested growth centre approach for development of backward areas. It has also suggested a District Planning Unit which will look into the problems and ensure that the opportunities for growth are availed of by the surrounding backward areas.

The Union Government announced on June 3, 1988 further liberalisation of the industrial licencing system to provide incentives to promote industrialisation of backward areas. According to the policy the Non-MRTP and Non-FERA companies now do not require to obtain industrial licences under Industrial Development and Regulation Act (IDRA) if they are located in centrally declared backward areas, for the projects involving investment in fixed assets upto Rs.50 crores. Further the number of industries requiring compulsory licences was reduced from 56 to 26.

For the development of backward areas, the Government intended to establish 100 growth centres throughout the country over the next five years. Each growth centre will be provided with funds of the order of Rs.25 crores for creating infrastructural facilities, particularly in respect of power, water, telecommunications and banking. Further for promoting industries in backward areas, the new

35. For details see Degaonkar. C.K., op.cit., 1990, pp.91-130.

industrial undertakings established in declared backward areas are entitled to the income tax relief under Section 80 HH of the Income Tax Act by way of deduction of 20% of the profits for a period of 10 years. Furthermore, under Section 80 I of the Income Tax Act, all new undertakings are entitled to an income tax relief by way of deduction of 25% of the profits for a period of 8 Years.

The New Industrial Policy of 1971 acknowledges the long term objectives of the economy such as expansion of employment opportunities, progressive reduction of social and economic disparities and attainment of self reliance as well as balanced regional development.

Though the policy includes, "incentives for industrialisation of backward areas" as one of the objectives it does not state explicitly the measures intended to be taken in this regard. For attracting industries in backward areas the policy provides special incentives and development of facilities like roads, water, power, etc., on the one hand and on the other it prevents the concentration of industries in cities with over 10 lakh of population.

The other positive approach to carry industrialisation to backward areas is development of small

industries in rural industrialisation programme. The policy in this regard says, "Government will provide enhanced support to the small scale sectors so that it flourishes in an environment of economic efficiency and continuous technological upgradation, the package of measures to be announced shortly".  

The new industrial policy, however, is much silent on regional industrial dispersal. It leaves much to the private sector to decide what to produce, how to produce and where to produce. The policy therefore bears an inherent tendency to generate further growth of centralised monopoly capitalism in the country. It may need a suitable counter policy envisaged for building of a decentralised net work of small industries, with rural base in backward areas, to tackle the problem of growing regional inequalities in industrial development.

Industrial Development in Backward Areas - Policies and Programmes in Karnataka State.

Industrial development in backward areas of the state is promoted through the joint effort of the central and the state Governments.

38. Ibid., p.8

In 1971, when the Planning Commission released a list of industrially backward districts/areas selected to qualify for the central subsidy, Raichur district in the state alone became eligible for central incentives.\textsuperscript{40}

Further in 1973 with a change in policy of selecting three districts in each of the State outside the list of backward states the districts Mysore, Dharwad and Raichur became eligible for central incentives.

Further the Government of India in 1980, identified 53 backward talukas in the state for the purpose of giving State Capital Subsidy of 10\%. The talukas identified are given in Table 3.3.

Further in 1983 the Central Government classified backward districts of the State into three categories. They are:

- Category 'A' - No Industry Districts
- Category 'B' - Districts currently eligible for Central subsidy.
- Category 'C' - Other remaining backward districts.\textsuperscript{41}

\textsuperscript{40} For details see, List of Industrially Backward Districts/Areas in Sunderam K.V and Misra R.P 'Micro Level Planning and Development Process, Vol.I (Cyclostyled Report by Institute of Development Studies, University of Mysore, Mysore, August 1976) Annexure VIII.

\textsuperscript{41} Government of India Vide Notification No. 4-1-81: BAD (Vol. 3), dated 27th April, 1983.
### TABLE 3.3
**TALUKAS IDENTIFIED FOR STATE CAPITAL SUBSIDY.**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Districts</th>
<th>Talukas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bangalore</td>
<td>Amekal, Channapatna, Ramanagaram, Doddaballapur.</td>
</tr>
<tr>
<td>2.</td>
<td>Belgaum</td>
<td>Belgaum, Chittodi, Gokak</td>
</tr>
<tr>
<td>3.</td>
<td>Bellary</td>
<td>Bellary, Hospet</td>
</tr>
<tr>
<td>4.</td>
<td>Bidar</td>
<td>Basavakalyan, Bidar</td>
</tr>
<tr>
<td>5.</td>
<td>Bijapur</td>
<td>Bijapur, Bagalkot, Janakhandi</td>
</tr>
<tr>
<td>6.</td>
<td>Chikmagalur</td>
<td>Chikmaglur, Kadur</td>
</tr>
<tr>
<td>7.</td>
<td>Chitradurga</td>
<td>Chitradurga, Davangere, Harihara</td>
</tr>
<tr>
<td>8.</td>
<td>Kolar</td>
<td>Sonapurpet, Virajpet</td>
</tr>
<tr>
<td>10.</td>
<td>Gulbarga</td>
<td>Gulbarga, Chitapur</td>
</tr>
<tr>
<td>11.</td>
<td>Hassan</td>
<td>Hassan, Holenarsipur, Channarayapatna</td>
</tr>
<tr>
<td>12.</td>
<td>Kolar</td>
<td>Kolar, Chikballapur, Bangarpet</td>
</tr>
<tr>
<td>13.</td>
<td>Mandya</td>
<td>Mandya</td>
</tr>
<tr>
<td>15.</td>
<td>Uttar Kannada</td>
<td>Karwar, Malival, Sirsi</td>
</tr>
<tr>
<td>17.</td>
<td>Shiroga</td>
<td>Shiroga, Bhadravathi</td>
</tr>
<tr>
<td>18.</td>
<td>Dakshina Kannada</td>
<td>Mangalore, Udipi, Karkala</td>
</tr>
<tr>
<td>19.</td>
<td>Tumkur</td>
<td>Tumkur, Tiptur.</td>
</tr>
</tbody>
</table>


According to this classification, Bidar district has been declared 'No Industry District' and 5 talukas of the district belonging to category 'A', 37 talukas of Mysore, Dharwad and Raichur districts belonging to category 'B' and 68 talukas of Belgaum, Bijapur, Gulbarga, Hassan, Uttar Kannada and Tumkur belonging to category 'C'. With this change, the rates of central subsidy has also changed. Talukas in Category 'A', 'B' and 'C' are eligible for central subsidy of 25%, 15% and 10% of the value of the fixed assets.
respectively.

Incentives and Concessions by State Government.

The Government of Karnataka has also provided concessions and incentives to develop industries in the backward regions. The government felt that large number of industries have been established in and around Bangalore. With a view to avoid further concentration of industries in and around Bangalore it is necessary to disperse them to industrially backward areas by offering additional incentives wherever necessary.\textsuperscript{42} The Government has directed the following additional incentives and concessions to new industries coming up in the eleven industrially backward districts of Bellgaum, Bidar, Bijapur, Dharwad, Gulbarga, Hassan, Mysore, North Canara, South Canara, Raichur and Tumkur.\textsuperscript{43}

Following is the package of the concessions and incentives given to backward districts.

1. Land : The price payable for the land offered by the Mysore Industrial Areas Development Board (MIADB) shall be recovered as follows.

\textsuperscript{42} In this connection the Government has passed an Order No. CI 121 FMI 71/ dated November 25, 1971, Bangalore.

\textsuperscript{43} Planning Commission: The Fourth Plan, Mid-term Appraisal, Vol. I Government of India, New Delhi, 1971, p. 60. (It announces a list of industrially backward districts in India to qualify for concessional finance from the Financial Institutions.)
a> 10% down payment.

b> Balance amount due recoverable in 10 equal instalments with interest at a rate to be determined by the MIADB.

2. Sales Tax: Exemption from sales tax will be made applicable in respect of the capital goods also provided they are purchased within the State by the new industrial units.

3. The MIADB will develop and provide infrastructure facilities in the following districts.

   a. Hubli - Dharwad region in Dharwad district.
   b. Mysore district.
   c. Raichur district.
   d. Dandeli in North Canara.
   e. Harihara in Chitradurga district and
   f. Mangalore in South Canara district.

The package of infrastructure services to be developed in these districts/talukas include:

   a. Labour quarters
   b. Quarters for middle executives
   c. Road.
   d. Water.
   e. Drainage.
   f. Railway riding and
   g. Power and lighting.

4. Security for loans sanctioned by the Mysore State Financial Corporation (now KSFC). The Mysore State Financial Corporation shall accept equitable mortgage in all cases not covered by Government exceptions in respect of loans sanctioned to industries in the backward districts.
These concessions and incentives were limited to those units engaged in industrial production. No concessions were to be given in respect of industrial units where government investment is 50% or more in the form of either share capital or loans or both together.\textsuperscript{44}

A major attempt to reorient the policy of concessions and incentives to meet the requirements of regional dispersal of industries was also made in 1975 when the government took a decision to offer incentives and concessions at a differential rate depending upon the backwardness of the different areas, for this purpose the State was classified into three regions/groups.\textsuperscript{45} These are:

- **Group I**: Bangalore Metropolitan Areas, Bangalore South Taluka, Bangalore North Taluka.
- **Group II**: Kolar, Shimoga, Mandya, Chikmagalur, Chitradurqa, remaining talukas of Bangalore district, Bellary and Kodagu.
- **Group III**: Tumkur, Hassan, Dakshina Kannada, Uttar Kannada, Dharwad, Bijapur, Belgaum, Bidar, Gulbarga, Raichur, Mysore and Notified Industrial Area except in Group I.

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\textsuperscript{44} Department of Industries and Commerce: Concessions/Incentives Offered by Government of Mysore, Bangalore, 1972, pp.11-12.

Various concessions and incentives were planned in such a way that Group III areas were to benefit more than the other two Groups and Group II was relatively favoured to Group. I. The concessions and incentives cover sales tax, state subsidy on capital, advance for feasibility studies, octroi exemption, price preference, electricity tax, water royalty, concessional stamp duty and registration fee.

A growth centre approach was adopted to promote development of industries in a planned way over the different districts of the State, 46 for promoting industrial development.

A more intensified effort was carried out with the introduction of a new package of incentives and concessions in 1982, for a period of five years i.e., 1982 to 1987. One of the major objective of this package of incentives was "dispersal of industries to the backward areas and providing inducement to industries to move away from the areas of high concentration". 47 A new attempt was made to identify the industrially backward areas for which incentives and concessions are available. Accordingly the State was being divided into four Zones.


Zone I - Industrially more developed areas
Zone II - Industrially less developed areas
Zone III - Areas identified by the State for industrial growth.
Zone IV - Centrally declared industrially backward areas.

In Zone I, which is industrially developed, there is no need to attract industries to these areas through incentives and in fact, there is need for discouraging new industrial investment in these areas in order to check uncontrolled growth of industries.

Zone II and III are eligible for concessions and incentives only in respect of units coming up in areas developed by Karnataka Industrial Area Development Board (KIADB) or sheds constructed by Karnataka State Small Scale Industries Development Corporation (KSSGIDC).

Zone IV which have been declared backward by the Central Government and is eligible for central investment subsidy and other concessions offered by Central Government.

Various incentives and concessions offered in the last three Zones considered industrially less developed indicate that the range of promotional measures is really stupendous and Karnataka Policy in this regard is highly progressive. The new package of incentives include:

1. Subsidy on the preparation of feasibility study for small scale and tiny sectors.
2. Investment subsidy for all sectors.

3. Sales tax exemption for tiny sector.

4. Working capital loan for medium scale and small scale sectors.

5. Development loan for medium scale and small scale sectors.

6. Pioneer unit subsidy for medium and large scale sectors.

7. Interest subsidy for tiny sector.

8. Subsidy on electricity tariff for small scale and tiny sector.

9. Reimbursement of the cost of prototype for small scale industries.

10. Subsidy for purchase of generators for medium and large scale and small scale sectors.

11. Subsidy for procurement of know-how for medium and large scale industries.

12. Reimbursement of registration fee for promotional council and price preference for small scale and tiny sectors.

13. Concessional registration charges and exemption from stamp duty for all sectors.

14. Subsidy for housing for medium and large and small scale sectors.

This is an improvement over the earlier scheme of incentives and concessions. It has increased the investment subsidy price preference, development loan besides providing subsidy for the purchase of generators, subsidy for housing etc.

The Government of Karnataka has committed a future policy of rapid industrialisation in all parts of the state.
with a view to attract new industrial investment in the State, specially to the backward areas, the Government and other development agencies are now offering several incentives and concessions. While highlighting the strategy and approach for development of industries in future years the industrial policy (1983) stated that the package of incentives and concessions for industrial development will be restructured suitably to ensure that the entrepreneurs of the State are not placed in a disadvantageous position in backward area of the State. Further the backward areas were reclassified to avoid the existing anomalies.

For the applicability of the new package, the State has been classified into four Zones. These are;

Zone I Covering 2 talukas
Zone II Covering 38 talukas
Zone III Covering 129 talukas
Zone IV Covering 6 talukas and three growth centres to be set up at Dharwad, Hassan and Raichur.

The incentives and concessions vary with different zones. They are presented in Table 3.4.


### TABLE 3.4
**NEW INCENTIVES AND CONCESSIONS BY THE STATE GOVERNMENT**
(Effective from 01.01.1990 upto 30.09.1995)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Zone I</th>
<th>Zone II</th>
<th>Zone III</th>
<th>Zone IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Investment subsidy</td>
<td>Nil</td>
<td>15% Max. 20% Max. 25% Max.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Rs.15.00 Max.</td>
<td>Rs.20.00 Max.</td>
<td>Rs.25.00 Max.</td>
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<tr>
<td></td>
<td></td>
<td>lakhs Max.</td>
<td>lakhs Max.</td>
<td>lakhs Max.</td>
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</tr>
<tr>
<td>02.</td>
<td>Thrust Sectors</td>
<td>15% Max.</td>
<td>20% Max.</td>
<td>25% Max.</td>
<td>25% Max.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rs.15.00 Max.</td>
<td>Rs.20.00 Max.</td>
<td>Rs.25.00 Max.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>lakhs Max.</td>
<td>lakhs Max.</td>
<td>lakhs Max.</td>
<td></td>
</tr>
<tr>
<td>03.</td>
<td>a. Sales tax exemption (from the date of starting commercial production)</td>
<td>Nil 100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>b. Thrust Sectors</td>
<td>100% 3 Years</td>
<td>100% 4 Years</td>
<td>100% 5 Years</td>
<td>100% 5 Years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 Years 4 Years</td>
<td>5 Years 6 Years</td>
<td></td>
<td></td>
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<tr>
<td>04.</td>
<td>Pioneer Industry</td>
<td>Nil Nil</td>
<td>Rs.25.00 Max.</td>
<td>Rs.25.00 Max.</td>
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<tr>
<td></td>
<td></td>
<td>lakhs Max.</td>
<td>lakhs Max.</td>
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<tr>
<td>05.</td>
<td>Special Concessions:</td>
<td></td>
<td></td>
<td></td>
<td>as applicable to Zone IV</td>
</tr>
<tr>
<td>a) To Electronics.</td>
<td></td>
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<tr>
<td>Telecommunication</td>
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<td></td>
<td></td>
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<tr>
<td>Informatic units</td>
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<tr>
<td>set up in Mysore &amp; Dharwad Electronic cities.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>b) Special Category entrepreneurs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. SC/ST entrepreneurs</td>
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<td>ii. Minority entrepreneurs</td>
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<td>iii. Women entrepreneurs</td>
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<td>iv. Physically handicapped entrepreneurs.</td>
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<td>v. Ex-serviceemen</td>
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<tr>
<td>c) For installation of Pollution Control Equipments/Non-conventional energy sources.</td>
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<tr>
<td>d) Waiver of conversion fee for land for Tiny and SSI Sector.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Industries and Commerce; Package of Incentives and Concessions for New Industrial Investments in Karnataka 1990-95, Government of Karnataka, Bangalore, 1990, pp.X to XIII.
Besides these incentives and concessions infrastructural facilities are also developed to promote dispersal of industries in backward areas in Karnataka. As a matter of it KIADB has been acquiring land and developing industrial areas and Karnataka Small Industries Development Corporation (KSIIDC) has been engaged in the construction of industrial estates. All India level agencies like IFCI and IDBI and the State level agencies like KSIIDC (Karnataka State Industrial Investment and Development Corporation) and KSFC (Karnataka State Finance Corporation) have been providing the much needed facilities, which include both financial and other facilities.

Though Karnataka has introduced a wide range of incentives and concessions for promoting industries in backward areas and is also receiving concessions and incentives from Central Government, yet the industrial development in State continues to be concentrated in few districts. It is observed that recently out of 213 issuals as many as 119 (56%) issuals have been issued only for Bangalore district during 1969-1970.\(^\text{50}\) This indicates the favour towards the developed districts. Yet due to the efforts and strategies adopted by the Government and other

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development organisations, there is a trend of growing industrialisation observed backward areas. Among the backward districts, besides Mysore, Tumkur, Dakshina Kannada and Bidar also received a considerable number of issuuals. It may be hoped that this tendency will get strengthened during the years to come.