CHAPTER 2
Industrial Policy
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INDUSTRIAL POLICY

The major thrust of the economic planning in India has been on rapid industrialization, development of infrastructure, removal of socio-economic inequalities, generation of employment and balanced regional development, leading to economic growth and development. Along with the development of large industries, the emphasis has also been on the encouragement and promotion of small scale sector, which plays a pivotal role in the process of industrialization through its various backward and forward linkages as well as due to its high labour intensiveness and low capital intensity.

The strategy for industrial development pronounced by the Government from time to time comes in the form of Industrial Policy Resolutions and Statements. It is an interventionist approach intended to stimulate the industrial environment of the country in the desired direction and to give a broad policy framework and guidelines under which the industrial spectrum of the economy is intended to be shaped. It also reaffirms the belief that the Government is responsible for promoting economic development and welfare, setting priorities, define resource use through specifically articulated goals and action plans, give a purposeful direction to the industrial activities across different sectors, and for giving impetus to the industrial growth and development.

"Industrial Policy is a comprehensive concept. It covers all those principles, policies, procedures, rules and regulations which control the industrial undertakings and provides necessary direction and pattern to the industrial development of a country.....The policy underlines national priorities and the means and ways to achieve the same."
The Industrial Policy in India primarily aims at –

a) maintaining a sustained growth in productivity;

b) enhancing gainful employment;

c) achieving optimal utilisation of human resources;

d) attaining international competitiveness; and

e) transforming India into a major partner and player in the global arena.

India’s Industrial Policy, evolved through successive Industrial Policy Resolutions and Industrial Policy Statements, has been periodically enunciated by the Government. Immediately after independence, the Government introduced Industrial Policy Resolution in 1948 which outlined the approach to the industrial growth and development. A new and more comprehensive industrial policy resolution was set out in 1956 which was later re-affirmed in the subsequent policy statements over the years.

2.1 INDUSTRIAL POLICY RESOLUTIONS AND SMALL SCALE INDUSTRIES

The industrial policy resolutions and statements delineated measures for industrial development in the country. Industrial policy is a comprehensive document, which encompasses the entire gamut of industrial development perspective of the country. In this Chapter, we would be discussing the industrial policy resolutions and statements in two parts (a) Industrial policy resolution and statements made by the Central Government and (b) Policy initiatives taken by the State Government of Himachal Pradesh.
2.1.1 Industrial Policy Resolution, 1948

The Industrial Policy Resolution of 1948 delineated the broad policy framework of industrial growth and development of country for ensuring ‘continuous increase in production and ensuring its equitable distribution’. It assigned a progressive active role to the State for securing the development of industries in the desired direction. The Cottage and Small-Scale Industries were looked upon as the means for rehabilitation of displaced persons, utilization of local resources and achievement of local self-sufficiency in essential consumer goods such as food, cloth and agriculture implements. These industries were sought to be given a distinct cooperative bias so that the economic resources could be optimally utilised. The primary responsibility for developing small industries by creating infrastructure was assigned to the state Governments. The policy stipulated the coordination and integration of small scale industries with the large scale industries as well as advantageous decentralization of these industries. At institutional level, a Cottage Industries Board for promotion of small scale industries and a Cottage and Small Scale Industries Directorate within the Directorate General of Industries and Supplies were to be set up.

The Industrial Policy of 1948 was prepared in the backdrop of newly attained independence and integration of traditional occupations with the mainstream economy. The emphasis was on development of agriculture, reconstruction, extension of basic services, with a little emphasis on industrial development. With the introduction of second Five Year Plan, which intended to herald in the era of industrialization, a restatement of industrial policy to make it in tune with the Plan objectives had become necessary. This came in the form of Industrial Policy Resolution of 1956 which remained for a long time the cornerstone of industrial development in India.
2.1.2 Industrial Policy Resolution, 1956

Consequent upon the adoption of Constitution and stipulation of socio-economic goals as well as under the framework of the Mahalanobis Model of growth, which laid emphasis on heavy industries for leading the economy towards a long term higher growth path, the Industrial Policy was comprehensively revised in 1956. The major objective of Industrial Policy Resolution of 1956 was to accelerate the rate of economic growth and to speed up the industrialization as a means for achieving the national objective of attaining socialist pattern of society. In order to overcome the deficiency of capital and entrepreneurship and consequently the lack of private initiative, the policy envisaged a predominant and direct role of the State in the industrialization process. The Industrial Policy Resolution, 1956 stressed the role of cottage, village and small scale industries in the development of the national economy. It was acknowledged that these industries were instrumental in providing large scale employment and for ensuring equitable distribution of national income due to their capacity for wide-spraying industrial units all over the country. The industries were classified into three categories depending upon their roles envisaged in economic development of the State. The first category consisted of industries which would exclusively be the responsibility of the State for further development. In the second category of industries, the general initiative to establish new undertakings was to be taken by the State and its efforts would be supplemented by the private enterprise. The remaining industries were placed in the third category, where the initiative for development of these industries was to be taken by the private enterprise. The cottage and village and small scale industries were to be supported by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. The self-sufficiency of Small Scale Industries would be promoted and their development would be
integrated with that of large scale industries. Besides, the competitive strength of the small scale producer would be augmented by improving the technique of production. The growing demand for technical and managerial personnel for these industries would be met by organising apprenticeship scheme of training and by extending training facilities in business management in universities and other institutions. Further, the measures such as availability of power at affordable prices and organisation and encouragement of industrial cooperatives were intended to boost up the activities of small scale industries.

While the second Five Year Plan aimed at industrial development, the emphasis was mainly on large industries. Meanwhile, the Industrial Licensing Policy of 1970 had put certain restriction on expansion of large industrial houses in order to control the concentration of economic power. However, with a view to increase production, the utilization of existing capacity and the creation of new capacity became inevitable.

2.1.3 Industrial Policy Statement, 1973

As such, the Industrial Policy Statement, 1973 gave preference to small and medium units in setting up of new capacity, particularly in the production of goods of mass consumption. This was aimed at prevention of excessive concentration of industries in the large sector. The interests of cottage and household industries would be protected through a special legislation.

While the industrial policy of 1956 and industrial policy statement of 1973 delineated the broad contours of development for small industries, the development of these industries was still seen within the broad framework of industrial development which emphasized the development of large industries. However, with the change of regime at the Central level, a more interventionist approach reaffirming the role of Government as well as the targeted approach delineating specific role
to the small scale sector was required. As such, a new statement on industrial policy was made in 1977 declared that whatever can be produced by small and cottage industries must only be so produced.

### 2.1.4 Industrial Policy Resolution, 1977

The policy conceptualized a tiny sector within the small scale sector in order to give more focal attention to the units which had investment of upto Rs. one lakh in machinery and equipment and which were situated in the villages or in the towns having population of less than 50,000 as per 1971 Census. The items reserved for small scale sector were expanded from earlier 180 items to more than 500 items. The concept of District Industries Centres was introduced to provide all the support and services to the small and village industries under a single roof. The activities to be performed by the District Industries Centres included ensuring availability of raw material, supply of machinery and equipment, provision of credit facilities, marketing, quality control, research and extension activities. The special needs of cottage and household industries as distinct from small industries would also be taken care of separately. The linkages between the Development Blocks and the specialized institutions would be established for which appropriate financial and organizational support would be provided by the State Governments. The policy emphasized marketing support to the small scale industries by establishing linkages between large plants and ancillary units and through measures such as purchase preference and reservation of items for exclusive purchase by the Government Department and Public Sector Undertakings. The policy stressed the maintenance of buffer stock of essential raw material by National Small Industries Corporation at the National level and Small Industries Development Corporations in the States and the provision of adequate financial assistance under Rural Industries programme for small scale industries. The Industrial Development Bank of India was
given the task of coordinating, guiding and monitoring the entire range of credit facilities offered by other institutions to the small and cottage sector. The productivity and earning capacity of small and village industries would be enhanced by development and application of appropriate technology for such industries. The appropriate techniques of production would further be integrated with the programmes for all-round rural development. The technology of smaller units should also be upgraded so as to ameliorate the technological backwardness of these units.

The focal points of Industrial Policy Statement of 1977 were extensive increase in the number of products reserved for small scale industries, shift in the development of small sector from big cities and state capitals to the district headquarters and special attention to the tiny sector situated in the towns and villages.

However, the change in regime and subsequent shift in the socio-economic priorities of development process paved the way for the new Industrial Policy Statement which was to be based on the Industrial Policy Resolution of 1956. The new policy was to increase the efficiency of the public enterprises and elimination of artificial distinction of conflicting interest between small and large scale industries by promoting the concept of economic federalism.

2.1.5 Industrial Policy Statement, 1980

The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological upgradation and modernization of industrial spectrum. The socio-economic objectives of the policy statement included optimum utilisation of the installed capacity, maximisation of production and attainment of higher productivity, higher employment generation, correction of regional imbalances through a preferential development of industrially
backward areas, strengthening of the agricultural base by according a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationship, faster promotion of export-oriented and import-substitution industries, promotion of economic federalism with an equitable spread of investment and dispersal of small but growing units in rural as well as urban areas. The investment limit for the tiny units was increased from Rs.1 lakh to Rs.2 lakhs, for small scale units from Rs. 10 lakhs to Rs. 20 lakhs and in case of ancillaries from Rs. 15 lakhs to Rs. 25 lakhs. In order to promote integrated industrial development, to widespread investment and employment as well as to encourage dispersal of advantages of industrialization to the maximum extent possible, a nucleus plant was to be set up in each industrially backward district. The nucleus plants were to assemble the products of ancillary smaller units, produce the inputs for a large number of smaller units and upgrade the technology of small units. These plants were expected to generate a widespread network of small scale units which would produce the inputs for nucleus plant and use the products of nucleus plant as inputs. This were expected to generate ancillarisation effect in the form of large scale employment, higher per capita income and more equitable distribution of the benefits of industrials to the larger number of people in the area. The policy statement reiterated timely availability of credit on appropriate terms to the growing units in the small scale sector and maintenance of buffer stock of essential material to ensure unhindered growth of small scale industries. The existing policies relating to the marketing support to, and reservation of items for, small scale industries were continued. Greater emphasis was laid on bringing the benefits of latest research and development to the medium and small units. The Government undertook to evolve modernization package which would contribute to higher productivity and reduction of drudgery. The process of modernization was to percolate to small units and village industries.
The industrial policy statement of 1980 had shaped the industrial spectrum of the country for about a decade. The industrial development and infrastructure created over the years had broad-based the industrial spectrum of the country. However, the nineties had been considered as beginning of the era of liberalization and the small scale sector could not be expected to remain aloof from the changing economic environment. In fact, in the new circumstances, the small scale sector was to function in a situation which was hitherto not faced by it. There was, therefore, need to integrate small sector with the industry within the liberalized economic framework. The changing economic environment necessitated broad-basing small scale sector in terms of investment ceiling and items reserved for exclusive production as well as technological upgradation to enhance production and productivity.

2.1.6 Industrial Policy 1990

The investment ceiling in plant & machinery for small scale industries was raised from Rs. 35 lakhs to Rs. 60 lakhs and for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs. The investment limit was further stepped up to Rs. 75 lakhs in case of small scale units which undertook to export 30 per cent of their annual production by the third year. Investment ceiling in respect of tiny units increased from Rs. 2 lakhs to Rs. 5 lakhs. The number of items reserved for small scale industries was raised to 836. However, more items were to be identified for exclusive manufacture of small scale sector, besides dealing effectively with those large scale units which ventured into the areas reserved for small scale sector. A targeted approach stipulated for adequate and timely flow of credit to small scale industries. High priority was accorded to the agro processing industry in credit allocation from the Financial Institutions. Small Industries Industrial Development Board of India (SIDBI) would provide need-based higher flow of credit, both term loan and working capital, to the tiny and rural industries. A new scheme of
Central Investment Subsidy was launched to assist small units in rural and backward areas which generate higher level of employment at low capital cost. The policy stressed the modernization and upgradation of technology of small units in order to strengthen their competitiveness. Time bound technology approval to bring best technology to small units and generation, adaptation and adoption of new technologies were also emphasized. The entrepreneurial base of small scale sector would be widened by laying emphasis on training of women and youth under the Entrepreneurial Development Programme. A special cell in Small Industries Development Organisation and State Directorates of Industries would be created to assist women entrepreneurs. The bureaucratic controls over the small scale units would be reduced and the procedures were to be simplified. The policy emphasized the expansion in the activities of Khadi and Village Industries Corporation as well as Khadi and Village Industries Boards and creation of special marketing organizations to assist artisans engaged in the rural and cottage industries. Artisans would be provided concessional credit, training facilities and free consultancy. Joint ownership of projects and setting up of processing units within the framework of co-operative societies or similar institutional framework would also be encouraged.

The small scale sector has been facing intense competition in the new economic order, where rapid technological advances, reduction of protective tariff and non-tariff barriers, integration of domestic and international markets, innovative entrepreneurship are putting up more challenges for strengthening of this sector. In the new scenario, it was imperative to have exclusive policy for small and cottage industries.

2.1.7 Small, Tiny and Village Enterprises Policy Statement 1991

While the earlier policy interventions for small scale sector were the parts of Industrial Policy Resolutions/Industrial Policy Statement, a policy statement for Small, Tiny and Village Enterprises was made.
separately in 1991 in the post liberalization period. The policy aimed at imparting vitality and growth-impetus to small scale sector so as to enable it to contribute effectively to output, employment and exports. The basic thrust of this resolution was to simplify regulations and procedures by delicensing, deregulating, and decontrolling.

The investment limit in respect of tiny enterprises was increased from Rs. 2 lakhs to Rs. 5 lakhs. The Industry-related service and business enterprises, with investment ceiling corresponding to those of tiny enterprises, were recognized as small scale industries. Small scale industries were exempted from licensing for all articles to be manufactured by them.

The emphasis was shifted from subsidized/cheap credit to ensuring adequate flow of credit. Equity participation by other industrial undertakings in micro, small and medium enterprises was permitted upto 24 per cent of shareholding in small scale industries in order to boost ancillarisation, and sub contracting. The scope of National Equity Fund Scheme and Single Window Loan Scheme was widened to facilitate a large number of entrepreneurs. The Limited Partnership Act was to be introduced to increase the supply of risk capital to small scale sector. The Act limited the liability of new and non-active partners to the capital invested.

A new Scheme of Integrated Infrastructural Development (including Technological Back-up Services) for Small Scale Industries would be implemented with the active participation of State Governments and financial institutions so that more and more industries were located in rural/backward areas and the linkages between agriculture and industry could be strengthened. A Technology Development Cell was to be set up in the Small Industries Development Organisation for providing technology inputs as well as coordinating the activities of tool rooms, process-cum-product development centres and
other research and development organizations to improve productivity and competitiveness of the products of the small scale sector. There would be an adequate and equitable distribution of indigenous and imported raw materials to the small scale sector, with priority to the tiny sub-sector in the allocation of indigenous raw materials. Marketing support to the small and tiny enterprises would be made available through cooperative/public sector institutions, other specialised/professional marketing agencies. National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name. The export activities of small sector would be augmented by setting up of an Export Development Centre in Small Industries Development Organisation working through a network of field offices and generating awareness among small units about producing goods and services conforming to national and international standards. The productivity, efficiency and cost effectiveness in the small scale sector were to be improved through modernization and upgradation of technology for which financial support for modernization would be provided to the specifically identified industries on a priority basis. Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges would serve as Technological Information, Design and Development Centres in their respective command areas. Training of entrepreneurs would be strengthened through Entrepreneurship Development Programmes (EDP), which would be built into the curricula of vocational and other degree level courses. Special training programmes would be devised for women entrepreneurs. Women Enterprises were redefined as those units in which women entrepreneurs have a majority of shareholding and management control.

The policy undertook to encourage the competitiveness of industries by augmenting productivity, quality and cost effectiveness. The employment opportunities would be increased and a pool of trained
manpower be created by developing linkages between industry and technical training institutions. The policy stressed the development of tiny, small scales, khadi and village industries, handlooms, handicrafts, rural industries and sericulture industry by creating infrastructure for them and by supporting them with special incentives and schemes. These industries would also be suitably linked with complementary activities, such as tourism, to facilitate the marketing of their products. The specific group of industries, which used local inputs as well as created direct and indirect employment, would be identified for the focused development. These industries included agro-based industries, mineral-based industries, tourism, hydroelectric power generation and electronics manufacturing of garments, knitwear, hundred percent export oriented units and units with fixed capital investment of more than Rs.300 crores. There would be sufficient dispersal of industries so that the benefit of industrialization spread to various parts of the State.

The new industrial policy rested on the planks of liberalization and globalization, with Government having a more facilitating and little regulative role to play. It is argued that the opening-up may jeopardize the distinction between high and low priority industries, blur the goal of self-reliance, lead to the growing consumerism, haphazard growth and creation of socio-economic disparity.

2.1.8 Comprehensive Policy Package for Small Scale Industries and Tiny Sector 2000

A comprehensive policy package for small scale industries and tiny sector was announced in August, 2000. The investment limits for Tiny Sector and Industry related Service and Business Enterprises were raised. Besides, a specific list of hi-tech and export-oriented industries would be prepared where investment limit would be further enhanced to bring in appropriate technology and to enable them to remain competitive. The limit for exemption from excise duty was raised from
Rs. 50 lakhs to Rs one crore to improve the competitiveness of small scale sector. The composite loan limit was also revised to Rs. 25 lakh. The eligibility limit for coverage under Credit Guarantee Scheme was revised from Rs. 10 lakh to Rs. 25 lakh. Some specified industries would be provided a credit-linked capital subsidy of 12 percent against loans for technology upgradation.

The scheme for granting financial assistance to the small scale enterprise for obtaining ISO (International Organisation for Standardization) certification was extended till the end of Tenth Five Year Plan. The eligibility limit of family income for financial assistance under Prime Minister’s Rozgar Yojana for setting up micro enterprises was raised from Rs. 24000 per annum to Rs. 40000 per annum. One time capital grant of 50 percent was given to the small scale industries association for developing and operating international standard testing laboratories. The entire country were to be covered by the Integrated Infrastructure Development (IID) under which there would be 50 percent reservation for rural areas and 50 percent earmarking of plots for the tiny sector.

A comprehensive package to strengthen Khadi and Village Industries and to improve the skills of Khadi workers was to be worked out. In order to minimize harassment to the small entrepreneurs, a group was to be set up for looking into streamlining of inspections and repealing of redundant laws and regulations. Self-certification was to be encouraged in place of inspection. The policy package called for revision of the guidelines for rehabilitation of sick, but potentially viable units. Besides, a fresh census for Small Scale Industries would be undertaken which would, inter alia, cover incidence of sickness in this sector.
2.1.9 Enactment of Micro, Small and Medium Enterprises Development Act, 2006

The Central Government provided a legal framework for dealing with various aspects of promotion, development and enhancement of competitiveness of micro, small and medium enterprises by enacting a Micro, Small and Medium Enterprises Development Act 2006. The Act categorized the enterprises into two categories, viz., (a) Manufacturing enterprises and (b) Services enterprises. For manufacturing sector the investment ceiling for micro enterprises would be upto Rs. 25 lakh, small enterpriser more than Rs. 25 lakh but no exceeding Rs. 5 crore and for medium enterprises more than Rs. 5 crore, but not exceeding Rs. 10 crore. The investment ceiling for service enterprises has been fixed Rs. 10 lakh for micro enterprises, more than Rs. 10 lakh but not exceeding Rs. 2 crore for small enterprises and more than Rs. 2 crore but not exceeding Rs. 5 crore for medium enterprises.

The Act provides for notification of all scheme/programmes of assistance under the Act, statutory basis for procurement preference policies of Central and State Government for goods and services provided by micro and small enterprises, ensuring timely and smooth flow of credit to these enterprises, a mechanism to address the problems of delayed payments, and setting up of a National Board for Micro, Small and Medium Enterprises to advise the Government under the Act.

2.1.10 Package For Promotion of Micro and Small Enterprises, 2007

A package for promotion of Micro and Small Enterprises was announced on 27th February, 2007, which provides for measures for address concerns in the areas of credit, fiscal support, support for cluster-based development infrastructure, technology, marketing,
capacity building of Micro, Small and Medium enterprises Association and support to the women entrepreneurs\textsuperscript{11}. The package entails effective and expeditious implementation of Micro, Small and Medium Enterprises Act, training of entrepreneurs in information technology, catering, agro and food processing, pharmaceuticals, bio technology etc., formulation of a scheme of financial assistance to select management/business schools and technical institutions to conduct tailor-made courses for entrepreneurs, conduct of a comprehensive study to assess the needs and scope of Government intervention required for enhancing the competitiveness of micro and small enterprises as well as strengthening of database for Micro, Small and Medium Enterprises sector\textsuperscript{12}.

\textbf{2.1.11 Public Procurement Policy for Goods Produced and Services Rendered by Micro and Small Enterprises 2012}

A Public Procurement Policy for Micro and Small Enterprises Order 2012 was notified for effective implementation with effect from 1\textsuperscript{st} April, 2012, with a view to help improve market access and competitiveness through increase participation of Micro, Small and Medium Enterprises in Government purchases. The salient features of the order are \textit{(a)} setting up of an annual goal of procurement from Micro and Small Enterprises by every Central Ministry/Department/Public Sector Undertaking for achieving an overall procurement target of 20 percent of total annual purchases of products produced and services rendered by these enterprises and \textit{(b)} providing of tenders free of cost and exemption from payment of earnest money in order to reduce the transaction cost of their business\textsuperscript{13}.
2.2 INDUSTRIAL POLICY INTERVENTIONS IN HIMACHAL PRADESH

Despite geographical and socio-economic constraints, the industrial development has been priority of the State Government. Further, the development of the small scale industries has been the integral part of the industrialization process of this hill State, considering the varied advantages these industries entails. In the initial stages, the industrial development was looked after by the District Industries Office and Districts Extension Officers (Industries) at the block level. Various interventions have taken place such as enactment of State Aid to Industries Act 1968, Rules regarding Grant of Incentives to Industries, 1971 which was later revised in 1980 and 1984\(^{14}\). These rules governed the process of providing various incentives, such as provisions of subsidy, development of industrial areas, concessional finance, tax concessions and so on\(^{15}\).

However after the economic reform of 1990s, more impetus was given to the policy formulation at the State level in a more comprehensive manner. The recent policy initiatives taken by the State Government have been discussed below.

2.2.1 Himachal Pradesh Industrial Policy – 1991

The Industrial Policy of Himachal Pradesh aimed at increasing the share of industrial sector in Gross Domestic Product of the State and accords a high priority to the industries. The focus of the policy was on optimum utilization of resources, improvement in productivity, upgradation of technology, increase in investment, dispersal of industries to the backward areas and generation of employment opportunities to the people of Himachal Pradesh\(^{16}\).
2.2.2 Himachal Pradesh Industrial Policy – 1996

While the existing industrial policy of the State had promoted certain industries through the selective provision of incentives and did not emphasize the development of infrastructure and setting up of basic industries. As such there was an imperative need to bring industrial policy of the State in consonance with the policies of the Government of India.

As such, the industrial policy 1996 of Himachal Pradesh stipulated that the industrial growth of the State would be fostered in the areas where the state had natural resource advantage, which would be ensured through optimum utilization of natural resources and by developing backward and forward linkages with natural resource sectors. The policy identified availability of quality infrastructure and complementary growth of service and business sectors to bolster industrial development in the region. The private sector and the assistance from the neighbouring States had also been enlisted for this purpose. The policy undertook to encourage the competitiveness of industries by augmenting productivity, quality and cost effectiveness. The employment opportunities would be increased and a pool of trained manpower be created by developing linkages between industry and technical training institutions.

The policy stressed the development of tiny, small scales, khadi and village industries, handlooms, handicrafts, rural industries and sericulture industry by creating infrastructure for them and by supporting them with special incentives and schemes. These industries would also be suitably linked with complementary activities, such as tourism, to facilitate the marketing of their products. The specific group of industries, which used local inputs as well as created direct and indirect employment, would be identified for the focused development. These industries included agro-based industries, mineral-based industries,
tourism, hydroelectric power generation and electronics manufacturing of garments, knitwear, hundred percent export oriented units and units with fixed capital investment of more than Rs.300 crores. There would be sufficient dispersal of industries so that the benefit of industrialization spread to various parts of the State.

2.2.3 Industrial Policy Guidelines 1999

The Industrial Policy Guidelines, 1999 aimed at development of infrastructure particularly in the high potential industrial growth centres, attracting investment and ensuring socio-economic balanced development in the State so as to increase employment opportunities. The policy emphasized the encouragement of cottage and tiny sector in the State. The State was divided into two categories viz., industrially developed areas and industrially backward areas. The industrially backward areas would be supported by the incentives such as exemption from all State taxes and duties for promoting industrial growth centres in the tribal areas, a special package for fruit, vegetable & maize based units using locally available raw material, higher and graded incentives for developing cottage, tiny and small sector in such areas and in priority sector. In order to increase employment opportunities, the incentives were linked with the status of employment. The concessions in taxes and levies to the industrial sector were rationalized and simplified.

A special thrust was accorded to the hundred percent export oriented units. More industrial areas in different parts of the State would be established, whereas the existing industrial areas would be facilitated with a network of roads, telecommunication, water and electricity. The guidelines envisaged the role of private sector in the development of infrastructure such as roads, transportation, development and maintenance of industrial townships. The industries most suited to the geographical location to the State would be identified
and given attractive package to promote their growth. The skilled and technical manpower would also be made available to the industry. The policy stipulated upgradation of technology and modernization of existing units, particularly the small and medium scale industries. Besides, the Research & Development (R&D) institutions in the State would be linked with the industrial projects and technical training needs would be taken care of. A congenial and supportive environment for the development of industry would be created by ensuring transparency and facilitating access to information, technology and financial resources. The guidelines envisaged price and purchase preference for the locally manufactured commodities without compromising on the quality of products.

2.2.4 Central Government Special Incentives to Himachal Pradesh 2003

The Government of India, vide their Office Memorandum No. 1(10)/2001-NER dated 7th January, 2003 announced a package of incentives in the form of tax concessions for the States of Uttranchal and Himachal Pradesh. The incentives were aimed at facilitating the availability of capital and increasing access to the market as well as encouraging private investment in the State, thereby creating enabling environment for industrial development in the State. The industries, which were environmental friendly, using local resources and had potential for generation of local employment, were eligible for the getting such incentives. The new initiatives would provide the required incentives as well as an enabling environment for industrial development, improve availability of capital and increase market access to provide a fillip to the private investment in the State. The package delineated fiscal incentives, which were available to the new industrial units, thrust-areas industries and to the existing units on their substantial expansion, which included, 100 percent excise duty
exemption for a period of 10 years, 100 percent income tax exemption for 5 years and capital subsidy at the rate of 15 percent on investment in plant & machinery to all new industries established in the specified locations. The funding under Growth Centre Scheme for development of industrial infrastructure were increased to Rs. 15 crore per centre and funding pattern in the nature of grant under Integrated Infrastructure Development Centre (IIDC) was revised to 4:1 between Central Government and Small Industries Development Bank of India (SIDBI). The funding pattern between Central and State Government under Deen Dayal Hathkargha Protsahan Yojna was also revised to 90:10. The package of incentives of Ministry of Textiles earlier notified for North-Eastern States was extended to the States of Uttranchal and Himachal Pradesh. Similarly, the subsidy of 15 percent of the project cost and relaxation of age under Pradhan Mantri Rozgar Yojana (PMRY) were provided to the State. Further, there would be a reimbursement of 75 percent of the cost of transportation of finished goods and raw material from their location to the nearest rail head under the Central Transport Subsidy Scheme.\(^19\)

2.2.5 New Industrial Policy and Incentive Rules, 2004 (Amended upto 7.2.2009)

Taking into account the decline in the rate of investment and employment in the industrial sector after 1998-99, the State Government enacted New Industrial Policy and Incentive Rules, 2004, which were made operation with effect from 31\(^{st}\) December, 2004. These rules were later revised in 2009. The policy, inter alia, aimed at addressing the issues that were impeding the growth of industrial activities in the State, such as procedure for setting up of new units, harmonization of various laws to make them in consonance with the growth objectives, development of socio-economic infrastructure in the State and so on. The policy stressed the phasing out the subsidy-based
incentives and instead, emphasized the development of infrastructure and environment conducive to the growth of industry in the State. The single window clearance agencies would be set up in different locations to assist industrial units in obtaining clearance from the concerned departments. The state-of-the-art industrial areas, with adequate infrastructure and modern amenities, would be developed. The self-certification by the industrial units would be promoted under which the minimum benchmark/norms would be prescribed to facilitate self-certification. The policy also aimed at increasing the use of information technology and promotion of research & development in the industrial sector.

2.3 SALIENT FEATURES OF THE POLICY MEASURES FOR SMALL SCALE INDUSTRIES

From the above discussions, it may be noted that the policy relating to small scale industries encompasses a number of aspects which are unique to these industries.

The small scale sector was initially defined on the basis of number of persons employed in an industrial unit. However, ‘employment criteria’ was replaced by investment in plant and machinery in 1960. The ‘investment limit’ for being qualified as small scale industries was revised periodically as per needs of the policy directives in this regard. The increase in investment limits had brought more and more units into the fold of small sector, which partially explained its growth in terms of investment, output and employment.

In order to protect the small sector from the competition from the large firms, to enable them to generate large scale local employment and to affect dispersal of units in backward areas, the policy for reservation of items for exclusive manufacture by the small industries was adopted. This gave a protective shield to the small scale sector.
However, this had, to some extent, blunted the competitive strength of small sector, affected their productivity and quality of their produce and slacken their modernization process. With the dawn of liberalization in 1991, the items reserved for small scale sector were de-reserved significantly and presently only 20 items are exclusively reserved for this sector. As such, the small scale sector has to operate in a competitive environment today, of course, with support available in the forms of credit, fiscal concession and other incentives.

In order to meet the financial needs of small scale sector, the small units were provided access to credit at comparatively low rate of interest and at low margin through commercial banks, financial institutions and other specialized institutions such as Small Industries Development Bank of India (SIDBI). The policy stipulated assistance in the preparation as well as timely and speedily processing of the proposals of small sector. Besides, the provision of equity participation by other undertakings in small scale units up to a specified quantity was intended to meet the capital requirements of these units. Similarly, the Limited Partnership Act was to provide risk capital to the small scale sector. Besides, the problems of delayed payments to small industries were to be tackled by the provision of factoring services through a network across the country.

The policy envisaged easy and unhindered availability of raw material to the small units. At the district level, the District Industries Centres (DIC) were entrusted with the economic investigation and allotment of raw material to the small scale units. Besides, there were efforts to provide sufficient marketing support to such units. The concepts of nucleus plants and ancillarization were aimed at creation of forward and backward linkages in the sphere of activities of small sector. There had been a provision for maintenance of buffer stock of scarce raw material to ensure its availability to the small sector. Further,
the measures such as purchase preference of the products of small scale industries by the Government departments and the price preference upto 15 percent of selected products of small units were also used as a marketing support to the small sector.

The policy also showed concerns about the modernization and upgrading of the technology of small sector in order to enable it to increase its efficiency and augment their competitive strength. The technology support was supposed to be provided for assessment of needs of technology, acquisition and application of technology, technology audit, facilities for product design and classroom/practical training for skill upgradation, etc. through a network of Technical Services Centre, Technology Transfer Centre and Software Technology Parks as well as material testing facilities through accredited laboratories. The small industries were assisted in establishing 100 percent export-oriented units for software exports.
The entrepreneurship was promoted through training programmes in entrepreneurship development. The policy measures visualized the establishment of a skilled cadre in managerial and technical fields. The apprenticeship training programmes were organized and the training facilities in business management were extended in university and other institutions.

The small scale sector was also allowed tax holidays for a specified period to provide them liquidity. These units were provided exemption from the payment of excise duty on a specified output and in terms of slab-size concessions. Besides, the deduction in respect of profits and gains were also available to these units.

The various institutions, such as National Small Industries Corporation (NSIC), District Industries Centres (DICs), Small Industries Development Bank of India (SIDBI), State Small Industries Development Corporations etc. were set up by the Central and State Governments for assisting small scale sector in various aspects of their activities. Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges provided technological information, and acted as Design and Development Centres for small units in their region. The quality counselling and common testing facilities were provided through Industries Associations. The updated knowledge on technology and markets were provided by Technology Information Centres. The policy emphasis had been on creating appropriate infrastructure for the comprehensive development of small scale sector. The various efforts made in this regard included establishment of industrial estates, rural community workshop, road and rail network, extension of rural electrification, the availability of power at affordable prices, adequate transport facilities, etc.
2.4 APPRAISAL OF INDUSTRIAL POLICY

An appraisal of the Industrial Policy of pre and post reform periods is given below.

2.4.1 Pre reform Period (1948 to 1991)

The Industrial Policy Resolution, 1948 was framed in the background of India which was just became independent from the foreign yoke and which had lagged behind industrially due to two centuries of exploitative colonial rule. As the industrial scenario was in a very miserable condition and the private initiative in the sector was not very forthcoming, the resolution, therefore, accords responsibility to the State to initiate steps for industrial development of the country. The cottage and small scale industries were looked upon as a means of dispersal of industrial activities in different parts of the country. As the capital was scarce and the labour was abundant, the labour constituted an important input in the process of production and, thus, the absorption of labour naturally became one of the planks of development strategy of small scale sector. The Industrial Development and Regulation Act (IDR), 1951 intended to regulate the private enterprise by the Government, making the registration of scheduled industries mandatory and stipulating licensing for registration of new units and for expansion of existing units. The Government got the authority to control, investigate and issue directions to the industrial units.

The Industrial Policy Resolution, 1956 was framed under the influence of Mahalanobis model of growth which set up the pace for rapid industrialization of the country. The State was given direct responsibility for speeding up the pace of industrial development. The public sector, which could venture into any of the industrial activities, of course with the active support of the Government, was assigned a predominant role. Besides, the items reserved for the State were expanded
and the powers of the State in the industrial sphere were expanded. By implication, the resolution was skeptical of the role of private entrepreneurship in industrialization, though the scope for private initiatives was not denied altogether. Yet the private sector was to play a secondary fiddle in the process of industrialization. While there was a little wrong in the State taking a lead role in the industrial development of the country, yet the neglect of the private initiatives led to relegation of private initiative and had provided a severe dent on the growth of private entrepreneurship in the country. This had a wide ranging implication for the industrial growth, size and structure of the country in the years to come. However, after two decades, in the mid-seventies, it was realized that the outright restrictions placed on private sector were antithetical to the industrial development. As such, some of the industries were de-licensed in 1975.

Further, the objective of ‘removal of poverty’ shifted focus on the promotion of small scale sector which was directly linked to the generation of job opportunities at the local level, thereby raising the income and facilitating removal of poverty. Subsequently, the Industrial Policy Statement of 1977 placed emphasis on the establishment, promotion and strengthening of small scale industries. At the district level, District Industries Centres were set up to cater to the varied needs of the small sector. The focus was also on the protection of small sector from the undue competition of the large sector and this was to be ensured by reserving items of production for the small scale industries. The list of items reserved for small scale industries was, therefore, expanded considerably.

The Industrial Policy of 1980 accorded significance to the improvement in the efficiency of the industrial sector by undertaking programmes of modernization and technology upgradation, so that the resources were optimally utilized. In order to boost the activities of small
scale sector, the investment limits of tiny, small and ancillary units were substantially increased and the support in terms of credit and infrastructure facilities was strengthened. The policy also intended to look into the development of entrepreneurship and managerial skills in the small sector so as to affect better management of these units on modern lines. The policy introduced the concept of nucleus plants which were expected to generate backward and forward linkages with the small units in a specified area in order to promote integrated industrial development of the region in terms of increase in investment, output, employment and income.

In Himachal Pradesh, there were 2728 small scale industrial units having an investment of Rs. 60050 thousand and providing employment to 9215 persons in 1975. The small scale industries engaged in the traditional activities, such as Food & Allied activities and Wood and Wood Products account for more than 50 percent of industries in this sector. However, in 1985 the number of small scale industrial units in Himachal Pradesh had gone upto 9993 units with an investment of Rs. 410766 thousand, generating employment for 41685 persons. This shows that the between 1975 and 1985, the number of small scale units in Himachal Pradesh increased by about 3.7 times, whereas the investment and employment rose by 6.8 and 4.5 times respectively during his period. However, after the various incentives given to the small scale industries by the Government, the number of units had increased to 20545 in 1991 with an investment of Rs. 1505400 thousand and a manpower of 86227 persons.

Thus, the policy measures in pre reform period aimed at development of small scale sector. The policies tended to remain by and large protective instead of promotional which precariously affected the efficiency and economic viability of small scale units. However,
there has been increase in the number units, investment and employment in small scale industries, particularly in the late eighties.

2.4.2 Post reform Period (1991 To 2013)

During pre-economic reform period, a wide variety of incentives, concessions and institutional facilities were extended for the development of small scale industries, keeping in view their contribution to the diversification of industrial base and generation of employment. But these socialistic promotional policy measures, in many cases, resulted in protection of weak units rather than the independent growth of units under competitive business environment. However, the change of industrial policy in 1991 reversed the situation from protectionism to competitive promotion. Now the small-scale industries in India found themselves in an intensely competitive environment due to globalisation, domestic economic reform and dilution of sector-specific protective measures. While the reform was opening up these units increasingly to the market competition, globalisation was intensifying the market competition.

National Commission on Labour (2002) shared this concern in its report and observed that the small scale industries were more vulnerable to the new trends of globalisation. Their very survival seemed to be at stake (4.233)\(^2\). Thus, the only way for these units to withstand competition was to improve the productivity and quality, impacting upon output and employment. Considering the large workforce, scarce capital and the need for strengthening the backward and forward linkages of large enterprises, it was all the more necessary to augment the competitive strength and productivity of small enterprises in order to ensure their survival in the new economic environment.
Conscious of the precarious and challenging position of small scale industries in the wake of liberalization, the post reform policies aimed to give concerted attention to the small sector. Apart from revising upward the investment ceiling, the number of items reserved for exclusive manufacture of these industries were expanded to 836 in 1990 with the intention of identify more such items for reservation. However, later on, the items were de-reserved progressively, and at present, only 20 items are reserved for exclusive manufacture of micro and small enterprise sector. This indicated the opening up of the sector to face market competition in the changed scenario. The emphasis shifted from exclusive protectionism to the promotion, with support in terms of credit facilities, development of infrastructure, special fiscal, direct and indirect tax concessions, programmes of modernization, development of entrepreneurship and enhancement of technology.

A special package of incentives for tiny and small industries was announced in 2000. Besides, Micro, Small & Medium Enterprises Development Act, 2006 and Limited Liability Partnership (LLP) Act 2006 were enacted to promote small scale sector along the desired line. Further, though the reservations of items for the small scale sectors had been the vital focus of the policy intervention, yet the review of such reserved items were made at regular intervals. With a view to improve the competitiveness of products of small units in national and international markets, more than 600 items were de-reserved during the last five years. Further, restrictions of equity participation by non-small scale industries undertakings in small scale enterprises were also lifted.

The small scale industries have progressed from 27439 units with an investment of Rs. 1953165 thousand and 139987 employees in 1999 to 32628 units having an investment of Rs. 3241029 thousand and providing an employment to 150140 persons in 2006. However, a
significant feature of this growth was the structural shift by the broad industrial groups during this period. The growth performance of different industrial groups indicated that though, the food and allied industries was still the largest contributor to the number of units in the small scale sector, the mechanical items had overtaken the traditional ‘food and allied industries’ as the major industrial group in employment generation in small scale sector both in the absolute numbers and in percentage terms. The industrial groups, such as textiles along with wood and wood products, also formed an important segment of small scale sector. The structural shift from traditional items to the mechanical items indicated the diversification of the industrial spectrum of the State on the modern lines, during the post reform period. Further, after the special package of incentives to industries in the State of Himachal Pradesh, 9964 small scale enterprises have come up with an investment of Rs. 6302.70 crores from 7.1.2003 to 31.12.2014. A total of 94878 persons had got employment in these enterprises during this period.

2.5 CONCLUSION

It could, however, be seen that the policy for development of small scale sector had been one of the components of the Industrial Policy Resolutions/Statement, at least in the pre reform period. This implies that the small sector had been viewed from the perspective of industrial sector as a whole, though some direction was sought to be imparted to the small sector in the industrial polices. Yet, this could not take away the advantages of a specific approach in terms of policy or programme of action for the development of small sector considering its significance in the industrial development. Though, the intentions underlying the policy could not be sufficiently addressed at the implementation level, yet the small sector was able to perform relatively better than the large sector. The emphasis on this sector, of course, was due to its advantageous position from the point of relatively low capital requirement for its operation, its
ability to generate employment at low cost and its location in the remote areas, leading to dispersal of industries.

The role of small scale industries in providing employment and ensuring equitable distribution of national income and mobilization of resources was emphasized for the first time in the Industrial Policy of 1956. The policy recommended the development of ancillary industries in areas where the large industries were to be established. However, the major thrust of the Industrial Policy Statement, 1977 on the promotion of small scale industries in rural areas and reservation of items to be exclusively produced by the small scale units.

The District Industries Centres were to be established in each district to provide necessary support and services to these units. The tiny industrial units within the small scale industries were conceptualized in order to effectively cater to the units with investment in machinery and equipment up to rupees one lakh and situated in towns having population of less than 50,000. However, the protective reservation of items for small scale units resulted in decline in the competitive strength of these units.

As such, in the wake of new economic policy of 1991, there was widespread fear that the small scale industries were to suddenly face the competition, both nationally and internationally. The list of items reserved for exclusive production by small scale industries was considerably pruned. The enhancement of private participation in industrial activity requires innovative approach to the production process, minimization of costs of use of factors of production to achieve maximum output and efficient allocation of resources to ensure greater productivity. However, the Government cannot abdicate its role in promotion of small scale industries, considering the important of this sector for the industrial economy of the country. This is reflected in the promulgation of the Micro, Small and Medium Enterprise Act, 2006 and the specific measures have been taken by the Government for development of these enterprises even during the post reform period.
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