CHAPTER I

*** INTRODUCTION ***
At the outset it is desirable that we should spell out the various concepts and the terms used in the study of our research topic. As may be seen zero industry areas and industrialisation prominently figure in the title, we propose to discuss at the outset these important concepts.

CONCESSIONAL FINANCE :-

When the normal economic forces governing the location of industries are overwhelmingly in favour of the developed areas, the dispersal of industries to backward areas and their development becomes a problem. In this situation the scheme like concessional finance is thought out to resolve this problem. Concessional finance implies the provision of concessions and incentives such as investment subsidy, transport subsidy, income tax rebate, supply of machinery on hire purchase at reduced rate of interest, interest subsidy, subsidy for consultancy of technical services and exemption from octroi duty.

INCENTIVES AND SUBSIDIES :-

Different types of incentives can be structured around the following three categories as (1) Central Govt. subsidies (II) State
Govt. subsidies and incentives from all India financial institutions. Central Govt. subsidies take the form of capital investment subsidies, income-tax concessions, transport subsidy and hire purchase of machinery etc. State Govt. also offer various types of incentives. Broadly speaking these include exemptions from sales tax, special capital incentives, term loans at lower rate of interest, exemption from octroi, guaranteed supply of power etc. The financial institutions have introduced number of incentives schemes for promoting industries in backward districts. The amount of concessional finance available from these institutions has been designed on the basis of the category of the districts.

ZERO - INDUSTRY AREA:

The concept of Zero-industry areas or "No-industry Districts" was introduced by the Central Govt. in March 1982. Those districts having no medium and large scale industry were identified as such areas and to develop infra-structure facilities for growth of industries in these areas a scheme was launched. A Zero-industry Tehsil is one in which on 1-10-82 investment in land building, plant and machinery of a unit was less than Rs 1 crore.

2. Udyog Bandhu "scheme of special state capital subsidy to and other unit" page-21 v.p.
SCHEME OF ASSISTANCE TO NO - INDUSTRY DISTRICTS:

Central Govt. extends assistance directly or through the state Govt. in the concerned areas. The Central Govt. under the scheme decided to subsidise one third of the cost infra-structural development of no -industry districts. The backward districts are classified into three categories viz.: "A", "B", and "C", according to the level of development. There are 131 districts in "A" category consisting of "No-industry districts and Special regions" districts. There are 87 special region districts which include 40 "No-industry" districts. So far a total of 90 "No industry" districts are identified in the country. There are 55 category "B" districts and 113 category "C" districts. Graded scheme of incentives have also been introduced for different types of backward districts.

NUCLEUS INDUSTRIAL CENTRE:

Nucleus industrial units setup in identified districts/areas in category "A", "B", and "C" are eligible for central subsidy as follows:

- Category "A": 25% up to a ceiling of Rs 25 lakhs
- Category "B": 20% up to a ceiling of Rs 20 lakhs
- Category "C": 15% up to a ceiling of Rs 15 lakhs

To qualify as a nucleus plant the industrial unit has to fulfill the following conditions:
(A) The nucleus plant will have to be located in any one of the indentified central subsidy districts/areas.
(B) The obligations and concessions in respect of nucleus plant would be available to it if it is conferred with the status if nucleus plant though a procedure of certification by the Ministry of Industry on being that the nucleus plant would be entitled subject to performance of obligation to all central and state level incentives.
(C) To be certified as nucleus plant the Project Report should indicate that 50% of the production in the plant would be through off-loading specialised assemblies/sub assemblies components plant itself would not be permitted to setup manufacturing facilities in respect of such identified items to be off-loaded.
(D) The nucleus plant would be expected to promote new ancillaries into local areas as part of its programmes of 50% ancillarisation.
(E) In order to promote widespread employment through the programme, the ancillarisation plant should provide for at least 3 times direct employment in ancillaries.

According to criteria indicated above two areas with which our study in concerned come under category "A".

"The term Industrialisation is used in two different ways. In narrow sense it is applied to establishing and developing the production of the means of production in the broad sense, it signifies the completion of the industrial revolution and transfer of the economy to industrial methods of production". 4

Industrialisation and eradication of the negative features of a weak economy require a sharp increase in the economic functions of the state. In India, where the mixed economy takes the form of co-existence and co-operation between the private and public sectors, the Govt. besides expanding the scope of its own business undertakings, also has to co-ordinate and encourage the industrial development in the private sector. The Govt. policy must ensure the speedy elimination of shortcomings of a backward economy and the industrialisation of the country as well as the coordinated development of the various sectors and structures of industry.

4. G.K. Shirkov - Industrialisation of India - page 7
According to Pai Kang Chang, "Industrialisation is a process in which changes of series of production functions are taking place. It involves those basic changes that accompany the mechanisation of the enterprise the building of a new industry, the opening of new market and the exploitation of a new territory, this is a way, process of deepening as well as widening of capital". 5

SCHEME OF CONCESSIONAL FINANCE:

The scheme of providing concessional finance for setting up industrial units in backward areas was announced in the middle of 1970. An operational area of the scheme includes 246 districts of different states/union territories. The agencies through which concessional finance was to be provided to industrialists in backward areas consisted of all-India term lending finance institutions, i.e. Industrial Development Bank Of India (IDBI), Industrial Finance Corporation of India (IFCI) and The Industrial Credit and Investment Corporation of India (ICICI).

The concessions which are being provided by the above mentioned financial institutions to industrial entrepreneurs in backward areas under this scheme

5. S.K. Gupta - Industrial Economics page - 2
include a lower rate of interest (1.5% less than the normal rate of interest), a reduced commitment charge of 0.5% and reduction in underwriting and guarantee commission. Moreover, the financial institutions, particularly IDBI accepts a lower promoters' contributions and follows a flexible policy in regard to debt equity ratio and loan amortisation period. Apart from refinancing loans advanced by banks and institutions in general, the IDBI also provides refinance at a concessional rate to SFCS/Banks in respect of eligible loans to small and medium sized projects in the selected industrially backward districts. 6

The Central Govt. had indentified 11 districts in the state as no-industry districts where there was no project having an investment of Rs. one crore or above.

Similarly the task force constituted by state Govt. has also indentified 21 districts including the above 11 Zero-industry districts where there was no project having an investment of Rs. 3 crores or above. These 21

6. T.S.Popala - Impact of concessional finance on industrial development of backward areas - page - 16-17.
districts are commonly known as task districts where assistance for the promotion of industries on a priority basis is provided. 7

The consonance with Government's policy towards balanced regional development. Various fiscal and financial incentives such investment subsidy by the Central/State Govts. transport subsidy, fiscal concessions and assistance on concessional terms from financial institutions are offered to industrial units coming up in backward areas. These incentives and concessions, no doubt, give impetus to industrial growth in some of the backward areas.

The Govt. of India identified 299 districts as specified backward areas (SBAs) and classified them into A B and C catagories depending upon the degree of backwardness. "A"catagory districts 131 in all include 90 "No- industry Districts" (NIDs) which have no medium or large scale industrial units. Government also announced further incentives/concessions to entrepreneurs for setting up industrial units in SBAs.

In order to accelerate the pace of industrialisation in SABs, especially in NIDs, IDBI alongwith IFCI and ICICI has formulated a comprehensive

scheme of concessional assistance and other incentives for the setting up the units in such areas. Under the scheme, the policy thrust is on providing graded-scale of incentives to attract investment in NIDs and other relatively more backward regions.

NATIONAL OBJECTIVES:

Economic development is structured around certain socio-economic objectives which are conceived to improve and change the national environment. In the case of developing economy of India the vision of Dr. Jawahar Lal Nehru held to build rapidly India into a modern agricultural and industrial economy. Besides aiming for speedy progress the national objectives were set as indicated below:—

(A) expansion of employment opportunities
(B) Removal of socio-economic disparities, poverty alleviation etc.
(C) Vibrant and self-reliant economy.
(D) Raising standard of living.
(E) Balanced regional development

8. Scheme of Concessional Assistance for Development of NIDs and Other Backward Areas - Page - 1-2.
The second five year plan also stated that development involves a transfer of a part of the working force from agriculture to secondary and tertiary activities. The objectives of policy from the long term point of view should clearly be to keep to the minimum further increase in the working force in agriculture. In fact, after a period, there should be a fall even in absolute numbers on the land. Similarly, there is little scope for increase in working force in traditional small scale industries which are already burdened with excessive numbers. The problem here is to prevent too rapid technological unemployment and to maintain and raise incomes through improvements in equipment techniques and organisation. The bulk of the new employment opportunities have therefore, to be found in mining and in modern industry - large scale as well as small scale in construction and in tertiary occupations.

RATIONALE OF INDUSTRIAL DEVELOPMENT:--

Though India is predominantly an agricultural country yet the population cannot subsist entirely on it due to number of problems relating to agriculture. Industrial development needs to be done not only to fill the gaps of agriculture in terms of employment, earnings and production but also to provide main stay for those
people who are not engaged in agriculture and allied activities. In pursuant to our national objectives industrial development has to be brought about for the areas which either have been starving of industries or have been neglected due to socio-economic constrains. It is also necessary that the industrially backward state like U.P. and within the state Zero-industry areas be given priority for building infra-structure for their industrial development.

STRATEGY FOR THE INDUSTRIAL SECTOR :

From the beginning of the planning the strategy of the industrialisation emphasised on more industrialisation and within the industrial sector emphasis on the growth of heavy goods industries.

In the Sixth Five Year plan (1980-85) the major elements of development strategy for the industrial sector were :-

(I) Substantial enhancement of manufacturing capacities in public and private sectors.

(II) Special attention to the capital goods industry in general and electronics industry in particular.
(III) Stepping up exports of engineering goods and industrial products as also projects exports.

(IV) Technological excellence to be promoted through a judicious blend of permitting import of contemporary technology and promoting the developing of indigenous know-how through domestic research and development.

The strategy conceived in the Seventh Five Year plan (1985-90) laid emphasis on:

(a) importance to infra-structural facilities particularly power.

(b) greater attention to mobilisation and maintenance of assets.

(c) upgradation of technology.

(d) improvement in productivity.

(e) reduction in cost and improved competitiveness.

(f) induction of new products.

(g) special efforts at accelerated development in selected industries in which the country has comparative advantage.

The Eighth Five Year plan though continuing planned efforts at development which started with the
1st five year plan in 1958, however, marked a significant break from the past in its paradigm of development. The approach to the 8th plan would have the following four-fold focus:

(I) clear prioritisation of sectors/projects for investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sectors and human development.

(II) Making available the resources for these priority sectors and ensuring their effective utilisation, and completion of projects on schedule avoiding cost and time over-runs.

(III) creation of a social security net through employment generation, improved health care and provision of extensive education facilities throughout the country.

(IV) Creation of appropriate organisations and delivery systems to ensure that the benefits of investment in the social sectors reach the intended beneficiaries.

Based on this approach, the following objectives would be accorded priority:
(a) Generation of adequate employment to achieve near full-employment level by the turn of the country.

(b) Containment of population growth, active people's cooperation and an effective scheme of incentives and disincentives.

(c) Universalisation of elementary education and complete eradication of illiteracy among the people in the age group of 15 to 35 years.

(d) Provision of safe drinking water and primary health care facilities, including immunisation, accessible to all villages and entire population and complete elimination of scavenging.

(e) Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports.

(f) Strengthening the infrastructure (energy, transport and communication, irrigation) in order to support the growth process on a substantial basis.

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INDUSTRIAL POLICY:-

To implement the objectives and strategy stated above policies and programmes were formulated. Immediately after independence the Govt. announced its attitude towards private capital and defined the scope of activity as we have adopted the structure of mixed economic for the economic growth. In 1948 an industrial policy resolution was issued and in April 1956 the industrial policy remained more or less the same during the next twenty five years. The salient characteristics of 1948 policy were:

(I) Explicit assumption of the responsibility by the Govt. to promote, assist and develop industries in the national interest.

(II) Recognition of the progressively active role of the public sector.

(III) Reiteration of the inherent right of the state to acquire any industrial undertaking whenever public interest demanded it.

(IV) Demarcation of the industrial field for the public and the private sectors.
The industrial policy Resolution of April 1956 emphasised that in order that industrialisation may benefit the economy of the country as a whole it is important that the disparities in the levels of development between different regions be reduced. It further stressed that concentration of industries in certain areas had also been due to the ready availability of power, water supply and transport facilities which had been developed there. As such it was one of the aim of national planning to ensure that these facilities were readily made available to areas which were lagging behind industrial development. Then on July 23, 1980 a further industrial policy statement was announced upholding the basic principles of the 1956 policy.

Since we proposed to make a critical study of concessional finance in relation to Zero industry areas, it is desirable to make a particular mention of the objectives of 1980 policy statements. These objectives were:

(I) Optimum utilisation of the installed capacity.

(II) Maximum production and achieving higher productivity.

(III) Higher employment generation.
(IV) Correction of regional imbalances through a preferential development of industrially backward areas.

(V) Strengthening of agricultural base by according a preferential treatment to agro-based industry and promoting an inter-sectoral relational set up.

(VI) A faster promotion of export oriented and import substitution industries.

(VII) Promoting economic federalism with an equitable spread of investment and the dispersal of returns among widely spread small but growing units as well as urban areas.

(VIII) Consumer protection against high prices and bad quality.

THE CRITERIA FOR SELECTION OF GROWTH CENTRES

PROMOTING INDUSTRIAL DISPERAL:

Recognising that one of the impediments blocking the industrialisation of backward areas is the absence of infrastructural facilities, the Govt. has announced a decision to set up 100 growth centres throughout the country over the next five years or so. It is intended that these growth centres should
serve as gravity centres for attracting industries to backward areas as though adequate development on infrastructure in these growth centres. In the 1st phase, it has been decision to launch 61 growth centres, allocated to different States/Union Territories as follows, in Uttar Pradesh.

The criteria for selection of growth centres for promoting industrial dispersal in an effective manner is essentially based on distance criteria. These growth centres cannot be located within 50 Kms. from 7 Cities (Calcutta, Bombay, Delhi, Madras, Bangalore, Ahmedabad, and Hyderabad) with a population above 25 lakhs, 30 Kms. from the boundary of two cities (Pune and Kanpur) with a population of above 15 lakhs but below 25 lakhs and 15 Kms. from the boundary of 12 cities (Nagpur, Jaipur, Lucknow, Jabalpur, Patna, Surat, Madurai, Indore, Varanasi, Coimbatore and Agra and Vadodra) with a population of 7.5 lakhs but below 15 lakhs. These cut-off points for population are as per the 1981 population census.

The growth centres will be located close to District/Subdivisional/block/Taluka headquarters or developing urban centres. The growth centres would be endowed with infrastructural facilities at par with the best available in the country. In particular, these
centres will have proximity/access to rail-heads, national or state highways, water supply, power, telecommunication, facilities. Each growth centre would cover a radius of about 20-25 Kms. Based on the aforesaid criteria, States/Union Territories have been asked to submit their proposals for roughly twice the number of growth centres allocated to them with detailed information and justification. The final selection of growth centres, will be made by the Central Govt.

Each growth centre, would be provided with funds of the order of Rs. 25 crore to Rs. 30 crore in order to create infrastructural facilities of a high order. An investment of the order of Rs. 2,500 crores to 3,000 crores spread over 100 growth centres is envisaged over the next five years for creating sound and efficient infrastructural facilities in backward areas. The funds for this purpose will be found by the centre, the states and the all India financial institutions acting together.

Each growth centre will acquire about 400 to 800 hectares of land for infrastructure development and for allocation primarily to small and medium sized units. Apart from the cost of land and its development, the other items eligible for financing under this scheme are provision of water supply, telecommunication facilities, construction facilities, construction of
access roads effluent disposal system, power distribution network within the growth centre and upgradation of existing schools, industrial training institutes etc. Provision of funds for augmentation of power supply are to be found under the state plan separately. Adequate banking facilities will also be provided in the growth centre but the expenditure on this will be borne by the banks concerned. 10

It was found that the following of 1980 statements witnessed the creation of a climate for rapid industrial growth. In the following chapters we will try to analyse to assess how far this industrial policy aided the development of Zero-industry areas. Despite certain drawbacks it was claimed that substantial gains were made with a view to correcting the distortions and weaknesses experienced in the past, a new industrial policy was announced on July 24, 1991. The new policy represented a historic change with a view to attaining

the old NEHRUVIAN goals of growth with social justice. But instead of using the command of Socialism the new policy opted for a Market-Friendly outward looking approach.

Having seen the industrial policy introduced from time to time, we may consider the specific policy to promote industrialisation in backward regions before 1970. The Govt. did not have a clearly defined policy to promote industries in backward regions. It relied by and large on the following instruments for the achievement of the said goal:-(1)Licensing policy (2) Industrial estates programme. It was after 1970 the policy towards backward regions could receive serious thought on the instance of National Development Council. Number of working groups such as Panday Working Group, Wanchoo Working Groups etc. were appointed to suggest criterion to identify industrialy backward regions and the measures for special treatment and incentives for the same. The National Committee on Development of Backward Areas under the chairmanship of Sri B. Shivaraman finally provided the basis for the Govt. to take up decisive steps for policy formulation.

for the industrial development of the backward areas. Thus the policy being presently followed over the last two decades was largely drawn on the recommendations made by the Pandey Committee and subsequently by the Shivaraman Committee. The important ingredients of this policy are: categorisation of backward districts, identification of no-industry districts, nucleus industrial centres, creation of industrial complex, and provision of incentives and subsidies.

After having perused the various concepts, objectives, and the broad features of industrial policy, we will strive to examine in the following chapters the concrete steps and their impact on the industrial development of the two areas selected for the study.

NEED OF STUDY:

The State Government has identified Kanpur Dehat and Fatehpur as zero-industry areas on the basis of the criterion already stated earlier along with development of substantial financial and economic assistance in backward areas. Special emphasis was laid on the whole industrial structure to remove the constraints and to bring the state at par with other industrially developed states. Measures like capital
subsidy, exemption or relief in sales tax, building of roads, improving availability of electric power, entrepreneurship development and training improvement in distribution system, liberal licensing policy etc. were taken up. The two districts selected for our study were reported to have potentials for the development of several industries such as maize processing plant, bimetallic bearing project, electrical resistance wire project, cattle/poultry feed project, bakers yeast plant, portable electric tools, glass lamps and fluorescent tubes, polypropylene leox strapping, carbon paper project, resource-based industries, skill-based units, demand based industries, extraction of rice bran oil, bone crushing plant, scooter tyres and tubes, sulphur black special relays tissue paper, cotton sewing thread, cotton waste blankets, PVC foam leather etc.

In the present study there is need to examine in detail, however, the various incentive measures and how far the various schemes of concessional finance worked to push two districts towards industrialisation. It needs to be verified how and to what extent the policy pronouncements such as removal of poverty and provision of products, employment etc. were implemented.
Many such situations were being reported in which on the one hand incentives were levished on new entrepreneurs to lure them into no-industry districts and on the other hand, measures like unrealistic rates of stamp duty and the purchase of land, resulted in the casualty to industrialisation. Industrialists from Kanpur and other areas in the state who made a beeline to Fatehpur to avail themselves of various incentives like Central investment subsidy, subsidised power tariff and sales tax concessions were vary on investment because of "unrealistic" circle rates fixed in January 1985 determining stamp duty on purchase of industrial land. Prospective entrepreneurs pointed out that the circle rates of undeveloped land in Fatehpur for determining stamp duty were Rs. 200/- per sq. metre on the G.T. Road, which worked out to Rs. 3,23,800/- per bigha or Rs. 8,09,500/- per acre. By this reckoning an entrepreneur who bought a bigha of land for say Rs. 25,000/- had to pay a whopping Rs. 3,23,800/- as stamp duty, nearly 13 times the original purchase price. In the course of our study we need to highlight the paradoxes and contradictions of these such situations for finding-out solutions to such problems. The agencies like UPDIC, UPFC, PICUP etc. provided number of facilities under their various schemes. In the present study, it is proposed to analyse the nature and extent of their contribution towards the industrial development of these districts.
The study on the selected topic is all the more relevant when the U.P. Govt. is out to implement industrial policy in the form of a campaign which aims to increase the consumer products by 21% and to build-up healthy climate to attract the entrepreneurs. In pursuance of the new industrial policy, the number of letters of intent was claimed to have increased. In 1981 the number was 81 and November, 1986 this number increased to 120 about which the details are given in the next chapter. The State Govt. is reported to accord top priority to the Zero-industry districts in this regard. To what extent the claim is relevant in the case of central region is needed to be investigated.

The basic objective of study is whether policy of concessional finance has really paid the dividends and transform the zero-industry areas into an industrialised area one. Research on the topics like the present one may be worth undertaking frequently even at the risk of some repetition as the process of industrialisation is an on-going process.

Before we undertake to consider and analyse the issues indicated above keeping in view the relevant concepts, policies, objectives etc. having an bearing on our research subject, it is desirable that in the
following chapter we should examine how far the national goals, objectives and policies relevant to zero-industry areas were reflected or projected in the policies and schemes introduced and implemented by the State Government in this connection.