CHAPTER - IV
CHAPTER IV

POST 1980 INDUSTRIAL POLICIES

In the previous chapter, we have examined it is clear that a number of industrial policy statements along with the 1980 Industrial Policy Statement up to 1977 the government acted upon the Industrial Policy Resolution of 1956 in letter and spirit. It was in 1980 that some real changes were carried forward because of the legacy left by the Janata Government. Moreover, the country had become self-sufficient in matters of food foreign exchange situation had eased and a number of public Sector undertakings had come to fruition. Consequently, the standard of living of the sizeable portion of the population had also gone up. All these factors called for some basic changes in the industrial policy of the government. But the government was reluctant to effect these changes because of a number of potential pulls and pressures. However, it pursued more liberal industrial policy towards hundred percent export-oriented industries and regularised the excess capacity installed over and above the licensed capacity to enable many industrial units to achieve full capacity and thereby increased production of various items which were in short supply. But the real beginnings towards liberalisation were made in 1985.
PHASE OF LIBERALIZATION (1985 onwards):

In this phase of liberalization suitable changes and modifications had been made in the industrial licensing system which primarily aimed at reducing the government control over industry so as to give a greater role to the market forces, streamlining the procedures so as to remove the various irritants in the operation of licensing system, and opening up the Indian industrial economy to the world economy. Globalization of the Indian economy was the main objective of the 1985 Industrial Policy Statement.

The Congress Government liberalised the industrial licensing policy in favour of large industrial houses particularly in terms of making them free from the provisions of MRTP and FERA Acts. This liberalization of the MRTP Act had led to anomalous situation where the large industrial houses became free to enlarge their activity, the smaller companies falling within the meaning of monopolies under the same Act started stagnate. This had mainly arisen because of the fact that the Government, while amending the provisions of the MRTP Act pertaining to the assets of the large industrial houses for the purpose of the Act, had not taken cognisance of provisions relating to monopolies which had in effect, stunted the
growth of large section of smaller undertakings. The major liberalisation measures which were introduced on March 19, 1985 are as follows:

1. Industrial licensing was abolished for all industries except for a short list of 18 specified industries; related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption.

2. Where industrial licensing applied, initially all units with a capital investments of less than Rs. 5 crores were exempted from seeking a licence. This limit was raised to Rs. 25 crores for the industrial units to be set up in the non backward areas and Rs. 75 crores for the units to be set up in Centrally notified backward areas.

3. A system of 'automatic licensing' was introduced in selected industries. These industries were free to have substantial expansion of their existing capacities so that they might get advantage of large scale production and produce better quality products at lowest cost.

4. Special concessions were extended to industry for modernization and replacement of obsolete machinery.

5. The Government introduced the significant policy initiative of 'broad—banding', that is, classification under broad categories of two wheelers, four wheelers, tractors, as well as machinery for fertilizers, pharmaceuticals, paper and pulp, etc., into generic categories. This measure was intended to enable the manufacturers to change their product mix to match changes in demand patterns without incurring procedural delays and other costs associated with seeking amendments to their industrial licences. It enabled the manufacturing industries to improve utilization of their installed capacities by diversifications of their product range. Nearly 17 MRTP companies availed of broad—banding facility by the end of December 1985, mostly in the automobile sector.

6. The Government extended a number of concessions for the industrial sector so as to promote investments and output in the sector, e.g., liberalized imports, specially for export production, liberal attitude towards foreign collaboration, fiscal concessions, like tax reliefs, etc., easy availability of institutional finance, and so on.

7. Total delicensing of 100 percent export oriented units in exports processing zones upto an
investment limit of Rs. 75 crores was introduced.  

8. A scheme for re-endorsement of capacity was liberalised under which re-endorsement facility was available to all licensed units which had achieved 80 percent of their licensed facility during any of the previous five years preceding March 31, 1985. The capacity of their licences was re-endorsed to the extent of the highest production achieved during any of the previous years plus one third thereof. Industrial undertakings, where production exceeded the re-endorsement capacity, were eligible for further re-endorsement in subsequent year(s) to the extent of the production already achieved plus one third thereof. This re-endorsement facility was not, however, available for items reserved for small scale sector or for certain identified industries suffering from acute shortage of raw material or infrastructure or characterized by high pollution or for MRTP and FERA Companies in respect of non Appendix I industries. Besides, in cases where the capacity increased through the endorsement facility such units were left at economic scales of operation. In December 1985, in order to accelerate modernization and replacement in industry, automatic expansion was granted to the

units wanting to achieve economies of scale and an increase in capacity upto 49 percent of the licensed capacity due to modernization was allowed.\footnote{3. Economic and Political Weekly, New Delhi, Vol. XX, No. 17, April, 1985, p.737.}

At the end of December, 1985, the Government notified a revised and expanded list of Appendix I industries specifying 30 broad groups of industries in which MRTP and FERA companies were permitted to set up capacities, provided that the concerned items of manufacture were not specifically reserved for the small scale or public sector. Outside Appendix - I industries, FERA and MRPT Companies continued to be permitted if the product was predominantly for exports. This required an export share of 60 percent normally and 75 percent if the item was reserved for the small scale sector.

The role of MRTP and FERA Companies in the industrialization of Centrally declared backward areas, where the conditions permitted these companies to establish non Appendix I industries in backward areas, was liberalized. All these measures reduced hurdles to entry into the high priority industrial sectors and thus encouraged the competitive forces operating to reduce costs and
improve quality. On January 30, 1986, the Government decided to delicense 23 industries covered by MRTP and FERA Acts provided that the industrial units were located in any of the Centrally declared backward areas.⁴

9. The threshold asset limit of MRTP Companies was raised from Rs. 20 crores (fixed in 1969) to an unexpected level of Rs. 100 crores (in March, 1985). As a consequence, 112 companies came out of the purview of the MRTP Act leaving 379 units still under the Act. A large number of industrial giants which were virtually stagnating, were allowed to grow freely till such time as their assets touched the Rs. 100 crores mark. It was announced as the part of measures designed to reduce rigidities and improve the environment for industrial growth.⁵

10. The investment limit for small scale units was enhanced from Rs. 20 lakhs to Rs. 35 lakhs and for ancillaries from Rs. 25 lakhs to Rs. 45 lakhs. However, nearly 200 items which were on the reservation list were de-reserved and made open for

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⁵ The Hindustan Times, New Delhi, March 20, 1985, p.1.
the medium and large scale sector. The decision had been taken by the Central Government keeping in view the escalation in the cost of plant and machinery since 1980 when the investment limits were fixed.

A notification under the Industries (Development and Regulation) Act, 1951, was issued to amend the Ministry of Industry's exemption notification dated February 16, 1973, to provide for exemption from licensing of small scale and ancillary industrial units up to investment in plant and machinery not exceeding Rs. 35 lakhs and Rs. 45 lakhs respectively. In view of this notification small scale units and ancillary units having investment in fixed assets in plant and machinery whether held on ownership term or by lease or by hire purchase not exceeding Rs. 35 lakhs and Rs. 45 lakhs respectively were exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951. This was, however, subject to the condition that such an undertaking would not be subsidiary of or owned or controlled by any other undertaking. The following clarifications were also made in this connection:

(i) Industrial undertakings which have crossed the limit of Rs. 20.1 lakhs in the case of small scale units and Rs. 25 lakhs in the case of ancillary units, but fall
within the revised investment limit and have not registered themselves with Directorate General of Technical Development (DGTD) or other technical authorities on or before the date of the notification raising the investment limits would be treated as small scale undertakings. Such undertakings were having an option to be transferred to State Directorate of Industries (SDI) or to continue with DGTD. This option was to be exercised within six months from the date of the notification. In the meanwhile (i.e. upto a period of six months) these undertakings would continue to receive their raw material assistance through the DGTD. However, an industrial undertaking exercising the option to continue with the DGTD or the concerned authority, would not be entitled for the incentives and concessions which were extended to small scale undertakings.

(ii) The small scale and ancillary units which were granted "carrying on business" (COB) licences, on crossing of the investment limits prescribed prior to the date of the notification, were eligible to be treated as small scale undertakings, if they fell within the revised investment limit. The COB licences, in their cases, were to be treated as dormant.

(iii) In case of undertakings which had crossed the previous investment limits, prior to date of notification,
and applied for COB licence, were no longer required to obtain COB licence provided their case fell within the enhanced limit fixed for small scale and ancillary undertakings. No further action was to be taken on their COB applications. They were to be treated as small scale and ancillary undertakings.

(iv) The undertakings which had crossed the previous investment limit of Rs. 20 lakhs prior to the date of notification raising the then investment limit, and which had neither obtained nor applied for COB licence, as was required under existing law would have breached the provisions of the Industries (Development and Regulation) Act. In view of the fact that they qualified for treatment as small scale and ancillary undertakings eligible for exemption under the licensing provisions, Government decided to treat such breach as a technical breach only to condone their non-compliance with the provisions of the Industries (Development and Regulation) Act, during the period for which they had crossed the previously laid down investment limits and under which they were required to obtain COB licence provided their cases fell within the enhanced limits fixed for small scale and ancillary undertakings. 6

The decision facilitated the small scale and ancillary industrial units to modernize their plant and machinery and to achieve rapid industrial development. In fact, it helped the small scale sector to play a more effective role in the process of industrial development of the country.

**THE 1988 LIBERALIZATION MEASURES:**

The Govt. introduced further liberalization of the Industrial Licensing System on June 3, 1988 in order to accelerate the pace of industrial growth and development and also provided incentives to give a strong stimulus to industrialization of backward areas.

**INDUSTRIAL LICENSING:**

Licensing and regulation of important industries are the main instruments of the industrial policy in India. Industrial licensing had its legislative sanction in the Industries (Development and Regulation) Act, 1951. The main objective of the IDR Act was to enable the Government to implement its industrial policy for the planned development and regulation of industries. It was the chief instrument in the hands of Government to guide development of industries in, the private sector in the directions indicated in the Five Year Plans. The Act sought to accomplish the following objectives:
* The regulation of industrial investment and production according to plan priorities and targets;

* Protection of small entrepreneurs against competition from large industries;

* Prevention of monopoly and concentration of ownership of industries in few hands; and

* balanced regional development with a view to reduce disparities in the levels of development of different regions of the economy.

In order to fulfil the above mentioned objectives, the Government assumed powers under the Act to issue licences for the establishment of new industries, for the expansion of old industries, production of new items by existing enterprises and for changing the location of an existing undertaking. The main provisions of the Act can be divided into the following:

1. **Restrictive Provisions**: This category included all measures designed to curb unfair practices adopted by industries. These provisions are as follows:

   (i) **Registration and licensing of industrial undertakings**:

   All the industries included in the schedule of the Industries (Development and Regulation) Act,
1951, were required to be registered whether they came under the private sector or the public sector.

(ii) **Enquiry of Industries listed in the schedule:**

The responsibility of the State did not end with the registration or granting of licences to the industries. If the working of a particular industrial undertaking was not satisfactory (e.g. if there was substantial under utilization of capacity or product was not up to the mark or cost of production and price were excessive), the Government could set up an enquiry into the affairs of that particular unit.

(iii) **Cancellation of registration and licence:**

If a particular industrial unit succeeded in obtaining industrial licence and registration by submitting wrong information, the Government could cancel the registration under Article 10(A) of the Act. Similarly, the government could also cancel the licence if the industrial unit was not set up within the stipulated period.

2. **Reformative Provisions:** In this category, the following provisions are worth mentioning:
(i) Direct regulation or control by the Government:

If the government feels that a particular industrial unit is not being run satisfactorily, it can issue directions for carrying out reforms. If these directions are not heeded to, the government can take over the management and control of that unit in its hands.

(ii) Control on price, distribution, supply, etc:

The government has been empowered in the Act to regulate or control the supply, distribution and price of the product manufactured by units belonging to the industries listed in the schedule of Act, if it so wishes.

(iii) Constructive measures:

In order to inspire mutual confidence and extend cooperation from the workers, the Government established Central Advisory Council and a number of Development Councils for different products. Representatives of the government, manufacturers, and workers meet together and discuss the measures for smooth conduct of the working of the industrial units.\(^8\)

The policy measures which were liberalized are the following:

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1. The Industrial Licensing system was liberalized in a very substantial manner for non MRTP and Non-FERA Companies. These companies were exempted from obtaining industrial licences under IDRA for projects involving investment in fixed assets up to Rs. 50 crores if they were located in centrally declared backward areas and up to Rs. 15 crores instead of Rs. 5 crores, if they were located in non backward areas. Under the policy package, the number of industries requiring compulsory licensing had been reduced from 56 to 26 by merging into one of the existing lists of industries in Schedule IV and V of the notification under the Industries (Development and Regulation) Act.9

2. For the development of backward areas, the Government established 100 growth centres throughout the country during the five year period, and each growth centre was provided with funds of the order of Rs. 25 crores to Rs. 30 crores for creating infrastructural facilities, particularly in respect of power, water, tele-communications and banking.

3. In order to promote industrialization in backward areas, new industrial units established in centrally declared backward areas were entitled to be exempted from the Income Tax under Section 80 HH of the Indian

Income Tax Act, 1961 by way of deduction of 20 percent of the profits which was available for a period of 10 years. Besides, under Section 80 I of the Income Tax Act, all new industrial units were entitled to be exempted from Income Tax by way of deduction of 25 per cent of the profits for the period of 8 years. The benefits of both these sections were available only to industrial units which were established in centrally notified backward districts.\textsuperscript{10}

4. The facility of delicensing given to non MRTP and non FERA Companies was not available if the project was located in urban areas (i) 50 km. of the periphery of cities having a population of more than 25 lakhs; (ii) 30 km. of the periphery of cities having a population of more than 15 lakhs but less than 25 lakhs; (iii) 15 km. of the periphery of cities having population of more than 7.5 lakhs but less than 15 lakhs; and (iv) 10 km. of the standard urban area municipal limits of other cities and towns.\textsuperscript{11}

However, there is no doubt that there was a justification for revision of asset limits of large industrial houses in view of the sharp escalation of prices that had already taken place but it was not expected that the Government would take a quantum jump and raise it 5 times. Considerations of liberalizing

\textsuperscript{10} The Hindustan Times, New Delhi, June 4, 1988, p.1.
\textsuperscript{11} The Times of India, New Delhi, June 4, 1988, p. 1.
investment with the objective of raising production had been paramount with the Government. Moreover, the Government also intended to promote computerization and electronics along with expansion of communications. The constraints in this regards in the form of MRTP and FERA regulations were sought to be removed. But in this process, the Government was making the small scale industry a victim of its programme of modernization. The de-reservation of approximately 200 items hit the small scale sector. The enormous benefits provided to the large industrial houses to compete with the small scale sector hit it further. As a consequence, the objective of promoting full employment via encouragement to small scale sector had been jeopardized.

**THE INDUSTRIAL POLICY STATEMENT OF 1990:**

The National Frant Government announced a new industrial policy on May 31, 1990, which accorded further liberalization for speeding up the pace of industrial growth and development. The salient features of the policy were exemption from licensing or registration for new units with an investment of Rs. 25 crores in fixed assets in non backward areas and Rs. 75 crores in centrally notified backward areas, automatic approval for foreign direct investment upto 40 per cent, foreign collaboration capital goods imports and relaxation of the locational policy. In fact, the Government had practically removed
all bureaucratic shackles and controls hampering industrial growth. This had been done by freeing the entrepreneurs from the licence and permit regime and giving them a free hand in decisions pertaining to choice of technology and foreign collaboration partner, investments and production limits so as to render the domestic industry internationally competitive for exports. The Government had considered the need to take measures for the promotion of small scale and agro based industries and to change procedures for grant of industrial approvals.

The Promotion of Small Scale and Agro based Industries:

In pursuance of our policy to re-orient industrial growth and development, to serve the objective of employment generation, dispersal of industries in the rural areas and to enhance the contribution of small scale industries to exports, it had been decided by the Government to take the following measures:

1. The investment ceiling in plant and machinery for small scale industries, fixed in 1985, was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary industries from Rs. 45 lakhs to Rs. 75 lakhs. In order to enable small scale industries to play an important role in the total export efforts,

such of the small scale industries which undertook to export at least 30 per cent of the annual production of the third year was permitted to step up their investment limit in respect of plant and machinery upto Rs. 75 lakhs.

2. Investment ceiling in respect of tiny units was raised from Rs. 2 lakhs to Rs. 5 lakhs. However, with regard to their location, the population limit of 50,000 as per 1981 census continued to apply. Steps were also taken to ensure better inflow of credit and other vital inputs and to improve the infrastructural support to the constituents of the tiny sector.13

3. (i) The Government reserved 836 items for exclusive manufacture in the small scale sector. The efforts were also made to identify more items for similar reservation. Encroachment and violation by large scale industries into areas reserved for small scale sector was effectively dealt with.

(ii) New Scheme of Central Investment Subsidy exclusively for the small scale sector in rural and backward areas capable of generating higher level of employment at lower capital cost, was implemented.

(iii) For improving the global competitiveness of the products manufactured in the small scale sector, programmes for modernization and upgradation of technology was also implemented. A number of technology centres, tool rooms, process and product development centres, testing centres, etc. were set up under the umbrella of an apex technology development centre in small Industries Development Organization.

4. To ensure adequate and timely flow of credit for the small scale industries, a new apex bank known as SIDBI had already been established. The major tasks of SIDBI and other commercial banks/financial institutions were channelized need based, higher flow of credit both by way of term loan and working capital, to the tiny and rural industries. A targeted approach was adopted to ensure implementation and to facilitate monitoring of this objective.

5. The existing regime of fiscal concessions was reviewed to provide sustained support to the units in the small scale sector besides removing the disincentives for their graduation and further growth.

6. An exercise was undertaken to identify locations in rural areas provided with adequate power supply to attract suitable entrepreneurs, to provide all other inputs for faster growth of small scale and tiny
industries. In the same way, industries which were not energy intensive were identified for proliferation in rural areas where power supply was a constraint.

7. In order to widen the entrepreneurial base, the Government laid particular emphasis on training of women and youth under the Entrepreneurial Development Programme. A special cell was established in Small Industries Development Organization (SIDO) and State Directorates of Industries to assist women entrepreneurs.

8. One of the persistent complaints of the small scale industries was that they are being subjected to a large number of acts/laws, being required to maintain a number of registers, submit plethora of returns and face an army of inspectors, particularly in the field of labour legislations. These bureaucratic controls were reduced so that unnecessary interference could be eliminated. Further, procedure was simplified and paper work cut down.  

**Agro based Rural Industries**:

9. In order to assist a large number of artisans engaged in the rural and cottage industries, the activities of the Khadi and Village Industries Commission (KVIC) and

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Khadi and Village Industries Boards (KVIBs) were expanded and these organizations were strengthened to discharge the responsibility more effectively. Special marketing organizations at the Centre and State levels were created to assist rural artisans in marketing their products and also in supply of raw materials. In addition, providing facilities and free consultancy to groups of artisans were also introduced.

10. The projects organized in close cooperation and on the basis of joint ownership with growers of agro products, were encouraged to establish processing units within the framework of cooperative societies. In sectors, where units required licensing, the policy, encouraged location of processing units in rural areas where growers were concentrated. Apart from the economic benefits of proximity to raw materials, it helped in dispersal of industries and increasing employment in rural areas. Besides, the agro processing industries received high priority in credit allocation from the financial institutions. In appportioning working capital banks gave higher priority to such industries as compared to the rest of the industrial sector.

11. In order to make the best technology available to these industries, technology approvals were given
within 30 days of presentation to Secretariat for Industrial Approvals in the Department of Industrial Development. The Government actively promoted generation, adaptation and adoption of new technologies in the field.\(^\text{15}\)

**HIGHLIGHTS**

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| **II. Large new units and Expansion:** |               |               |
| Licensing exemption : in terms of fixed assets (Rs. crores) |               |               |
| (a) In non backward areas | 15             | 25             |
| (b) In Centrally notified backward areas | 50             | 75             |
| (c) 100% EOUs and Units set up in EPZs | No specific exemption |               |

**NOTE:** MRTP and FERA Companies needed clearances under the respective Acts and hence did not benefit from the enhanced exemption limits.

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\(^{15}\) The Hindu, "Text of the New Industrial Policy", New Delhi, June 1, 1990, p. 12.
PROCEDURES FOR INDUSTRIAL APPROVALS

The industrial policy paper emphasised that Indian industry must be made more competitive internally as well as internationally and it also needed to be released from unnecessary bureaucratic controls by reducing the number of clearances required from the Government. While the Government continued to examine large projects in view of resources constraints, the decisions in respect of medium sized investments were left to the entrepreneurs. For achieving these objectives the following decisions were taken by the government.

1. Delicensing: All new units with an investment of upto Rs. 25 crores in fixed assets in non backward areas and Rs. 75 crores in Centrally notified backward areas were exempted from the requirement of obtaining licence or registration. It pointed out that more than 60 per cent of investments in industry were exempted from requirement of obtaining licence or registration.\(^{16}\)

2. Capital Goods: For import of capital goods, the entrepreneurs were entitled to import upto a landed value of 30 per cent of the total value of plant and machinery needed for the units.

\(^{16}\) The Economic and Political Weekly, New Delhi, June 9, 1990, p. 1237.
3. Raw Materials and Components: Imports of raw materials and components were permissible up to a landed value of 30 per cent of the ex-factory value of annual production the ex-factory value of production excluded the excise duty on the item of production. Raw materials and components on OGL were not included within this 30 per cent limit. For all licensable items of raw materials and components, import licensing procedures remained in force.

4. Foreign Collaboration: The Government gave freedom to the entrepreneurs to conclude technology transfer agreements with the collaborator without obtaining any approval from the concerned authorities or from the Government. This was, however, subjected to the condition that the royalty payment should not exceed 5 per cent on domestic sales and 8 per cent on exports. If, however, lump sum payment was involved in the import of technology and proposal required Government clearance, but the decision in this respect was required to be conveyed to the entrepreneur within a period of 30 days.17

5. Foreign Investment: Keeping in view the need to attract effective inflow of sophisticated foreign technology and easing of balance of payments, the policy provided on automatic approval for foreign direct investment up to 40 per cent in terms of equity, instead of

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17. The Hindustan Times, "Policy to re-orient Industrial growth, Procedures", New Delhi, June 1, 1990, p. 15.
going in for external borrowing especially in the small scale sector. In such proposals too, the landed value of imported capital goods should not exceed 30 per cent of the value of plant and machinery.

6. Minimum Economic Size: In order to ensure that investment leads to production of goods of international standards and that of maximum efficiency ensured, the units were required to confirm to the minimum economic size. However, where such a size was prescribed the policy laid down that the deregulation suggested was required to cover all cases of expansion and was not restricted only to new units.

7. Broad banding: The new industrial policy not only made changes in the then existing broad banking scheme but also laid down that if no extra investment was required no clearance from the Government was necessary for production and sale of any new items by the then existing units. This did not include those items which were reserved for the small scale industries.18

8. Locational Policy and Environmental Clearances: The location policy of the Central Government was not applicable to small scale industries. It was applicable

only when the industrial unit was to be located in and around metropolitan cities with a population of above 4 million. For these cities, location was not permissible within 20 km calculated from the periphery of the metropolitan area except in prior designated industrial areas and for non polluting industries such as electronics, computer software and printing. It was upto the State Governments to regulate industrial locations keeping in mind local conditions and requirements and their respective spatial development plans and zoning and town planning laws. Similarly, environmental clearance was to be obtained from the prescribed authority at the State level.

9. Export Oriented Units: The Government offered inducements for establishing export oriented units, even with foreign collaboration. 100 per cent export oriented units (EOUs) and units to be set up in export processing zones (EPZs) were also delicensed under the scheme upto an investment limit of Rs. 75 crores.

10. Convertibility Clause: Investments were exempted from the convertibility clause applicable to financing by Indian Financial Institutions. It may be clarified that in the application of the proposals listed above 836 items which were reserved for production in the small scale sector were exempted. Units set up by MRTP/FERA companies
were covered by procedures set out above and needed clearances under the provisions of these two Acts. The then existing De-licensed Industries Scheme, Exempted Industries Scheme and DGTD Registration System were abolished.¹⁹

Though, the industrial policy gave unrestricted right to conclude foreign collaboration if the royalty payments did not exceed 5 per cent on domestic sales and 8 per cent on exports, it was quite deficient in meeting the requirements of the Eighth Five Year Plan approach document. Whatever, the critics may say about the changing pattern of Indian Industry, there can be no two opinions that the industrial growth during the Eighties had accelerated and this accomplishment can rightfully be attributed to the overall favourable industrial policy measures. Thus, the tempo of industrial growth witnessed in the Eighties gave a further push to the process of industrial liberalization.²⁰ It is, however, the Industrial Policy of 1991 which seeks to bring about a sea change in the industrial and financial fields.

**THE INDUSTRIAL POLICY 1991**

**Policy Objectives** :

The foundation of Indian Industrial Policy was laid

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by Pt. Jawahar Lal Nehru. His vision and determination have left a lasting impression not only on industrial scenario but also on every facet of national endeavour since independence. It is because of his initiative that India is now having a strong and diversified industrial base and is considered a leader of the Third World Countries. The aims and objectives set out for the nation by Pandit Nehru on the eve of independence, were the rapid agricultural and industrial development of the nation, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self reliance, remain as valid even today as at the time Pandit Nehru first set them out before the nation. Any industrial policy announced must contribute to the realization of these goals and objectives at an accelerated pace of industrial development. The present statement of industrial policy announced by the Congress (I) Government on July 24, 1991, is inspired by these very goals and objectives and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.21

After nearly four decades of centralized planning, the Government has liberalized the economy to allow Indian industry to achieve its full potential. Widely, regarded as an instrument of dynamic industrial growth and development, the new industrial policy along with the

concurrent economic reforms and changes brought about in the new foreign trade policy are all symbols of the determination of the country to move ahead. Indian industry, over the years, has survived under an extremely adverse and complex set of rules and regulations which sought to control and inhibit rather than motivate and encourage the overall Indian economy to grow to its full capacity. The new industrial policy announced on July 24, 1991 together with other economic reforms will act as instruments of dynamic industrial growth and development.

**Changed Policy Accent:**

As already mentioned, the Government, immediately after independence, introduced the first Industrial Policy Resolution of 1948. This was inspired by the vision of building India rapidly into a modern industrial economy, providing higher employment, removing socio-economic disparities and attaining self-reliance. It also emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the constitution and the socio-economic goals, the industrial policy was comprehensively revised in 1956 by focussing more attention on achieving rapid industrial growth and development.
In order to meet new challenges from time to time, the industrial policy was subsequently modified and liberalized through Industrial Policy Statements of 1973, 1977, 1985, 1988, and 1990, which emphasized the need for promoting competition in the domestic market and technological upgradation and to make the Indian industry more competitive in the international market.

These policies created a climate for rapid industrial growth in the country. Thus, on the eve of the Seventh Five Year Plan (1985-90), a broad based infrastructure was built up. A high degree of self-reliance in a large number of items—raw materials, intermediates, finished goods—was achieved, new growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers were also trained.22

The Seventh Five Year Plan (1985-90) recognized the need to consolidate Indian industry's strength to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1988 which aimed at increasing productivity, reducing costs and improving quality. The emphasis was on opening the domestic market to increase competition and readying our

industry to stand on its own in the face of global competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological upgradation and scientific management of industry were pursued as the key instrument for increasing productivity and improving our competitiveness the world over. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5 per cent during this period.

The pace of deregulation and injection of competition through the 1991 Industrial Policy are intended to improve efficiency, raise productivity and help globalization of Indian industry. The Government by abolishing controls, has sought to remove bureaucratic interference. The new open door policy will act as an instrument of encouragement and assist Indian entrepreneurs in exploiting and meeting global opportunities and challenges. Government is pledged to launching constant struggle for social and economic justice, to end poverty and unemployment and to build a modern democratic, socialist, prosperous and forward looking India. Such a society can be built if India grows as part of the world economy and not in isolation.23

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Reflecting the changed thinking of the government, the policy states that the Government will continue to follow the policy of self-reliance and greater emphasis will now be placed on the ability to pay for imports through foreign exchange earnings. The Government is also committed to development and utilization of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.

Government will also continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development (R and D) bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will actively be promoted through appropriate incentives, institutions and infrastructure investments. The Government would also provide enhanced support to the small scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.

Foreign investment and technology collaboration will be welcomed to obtain higher and sophisticated technology, to increase exports and to expand the production base. The government will endeavour to abolish
the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military consideration and open all manufacturing activity to global competition.

The policy states that the Government will ensure that the public sector plays its rightful role in evolving socio-economic scenario of the country, but the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and will continue to innovate and lead in strategic areas of national importance. In the Fifties and Sixties, the main instruments for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also command bulk of nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.

Government will fully protect the interests of labour, enhance their welfare and equip them in the respects to deal with the inevitability of technological change. Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in
management will be promoted. Workers' cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes will be launched.

Government will continue to visualize new horizons. The major aims and objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain global competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to the public, private or cooperative sector will be encouraged to grow and improve on their past performance. The Government will follow the policy of "continuity with change".24

The main aim of the new industrial policy of 1991 is to "unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls", to introduce liberalization with a view to integrate the Indian economy with the world economy to increase the limit of foreign equity upto 51% in many high priority

industries and to remove virtually all restrictions on MRTP companies, to clear the way for foreign trading houses and easier import of foreign technology to remove all existing registration schemes. Besides, the policy aims to circumscribe and redefine the role of the public sector enterprises which have shown a very low rate of return or are incurring losses over the years. In pursuit of all these reforms of industrial policy, the Government have decided to take a series of initiatives in respect of the policies relating to the following areas:

(a) Industrial Licensing Policy
(b) Foreign Investment
(c) Foreign Technology agreements
(d) Public Sector Policy
(e) MRTP Act
(f) Small and Tiny Sector.

**Industrial Licensing Policy:**

As it is evident that under the provisions of section 11 of the IDRA, an industrial licence is required for the setting up of an industrial undertaking in 38 specified industries listed in the First Schedule to the IDRA. These are referred to as Scheduled industries'.

**Definition of 'industrial undertaking' and 'factory':**

'Industrial undertaking' has been defined in clause (d) of section 3 of the IDRA as an undertaking pertaining to a
schedule industry carried on in one or more factories by any person or authority including government. 'Factory' has been separately defined in clause (c) of section 3 of the IDRA as any premises in any part of which a manufacturing process is carried on. This definition of 'factory' is subject to the condition that if the manufacturing process is carried out with the aid of power, working 50 or more workers. If the factory is being run without power, working minimum 100 workers, bring it within the ambit of the definition under the IDRA.

Exemptions from the requirement of licensing: The Central Government has the power under the provisions of section 29B of the IDRA to exempt any industrial undertaking, class of industrial undertakings, any scheduled industry or class of scheduled industries from the operation of all or any of the provisions of the IDRA.\textsuperscript{25}

Industrial licensing is governed by the industries (Development and Regulation) Act, 1951. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalized from time to time. A full realization of the industrial potential of the country calls for a continuation of this process of change.\textsuperscript{26}

\textsuperscript{26} The Statesman, Delhi, July 25, 1991, p. 1.
In the sphere of industrial licensing, the role of the Government was to be changed from that of only exercising control to one of the providing help and guidance by making procedures fully transparent by eliminating delays. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, which at the same time, ensured that overriding national interests are not jeopardised.

In the above context, as part of the new Industrial policy package outlined in the Statement of Industrial Policy dated 24th July, 1991 the Central Government have decided to abolish industrial licensing for all industries except for 18 specified industries included in Annexure II to the statement which continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to many dynamic and medium entrepreneurs who have been unnecessarily hampered by the licensing system.  

However, "Industrial undertakings for the manufacture of motor cars and white goods (i.e. item no.

11 and 18 respectively) have been deleted from the list of industries subject to compulsory industrial licensing. In addition, raw hides and skins, leather and patent leather (excluding chamois leather have been deleted from this list, this has been done vide Press Note No. 4 of 1993 dated 28th April 1993). 28

In view of the considerations mentioned above in respect of industrial licensing, the Government have decided to take a series of measures in order to unshackle that Indian industrial economy from the cobwebs of unnecessary bureaucratic controls as hereunder:

(i) Industrial licensing has been abolished for all industries irrespective of levels of investment except for 18 specified industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption (Annexure II). Industries reserved for the small scale sector will continue to be so reserved.

(ii) Industries where security and strategic concerns predominate, will continue to be reserved for the public sector (Annexure I).

(iii) Automatic clearance will be given in projects where imported capital goods are required:

a) In cases where foreign exchange availability is ensured through foreign equity,

b) If the CIF value of imported capital goods required is less than 25 per cent of total value (net of taxes) of plant and equipment, up to a maximum value of Rs. 2 crores. In view of the current difficult foreign exchange situation, this scheme (i.e. (iii)b) will come into force from April 1, 1992. In other cases, imports of capital goods will require clearance from the secretariat of Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.

(iv) In locations other than cities of more than one million population there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject for compulsory licensing. In respect of cities with population of more than one million, industries other than those of non pollut ing nature such as electronics, computer software and printing will be located outside 25 km. of the periphery, except in prior designed industrial areas. 29

Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.

(v) Existing units will be provided a new broad handling facility to enable them to produce any article without additional investment.

(vi) The exemption from licensing will apply to all substantial expansions of existing units.

(vii) The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

**SUMMARY OF HIGHLIGHTS OF NEW POLICY, 1991**

* No licensing except in 18 specified industries.
* No MRTP assets limit. No prior approval required for MRTP Companies.
* Foreign investment limit upto 51 per cent in 34 high priority industries.
* List of areas reserved for PSUs to be confined to 8. Steel, aircrafts deserved.
* Automatic approval for foreign technology agreements.
* Automatic clearance for import of capital goods provided foreign exchange requirement is covered by equity.
* Mandatory convertibility clause enabling financial institutions to convert loans into equity to go.

* Participation of industrial undertakings up to 24 percent in the equity of SSIs in order to enable non SSIs units to acquire a stake in small units.

* Investment limit of tiny sector raised.

**Procedural Consequences:**

All existing registration schemes (delicensed registration, exempted industries registration, Directorate General of Technical Development (DGTD) registration) have been abolished. The entrepreneurs will be required only to file an information memorandum on new projects and substantial expansions.  

**Foreign Investment:**

The Government of India, in the Statement on Industrial policy dated 24th July, 1991 has recognised that foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. Further, this was particularly necessary in the changing global scenario of industrial and economic cooperation market by mobility of capital.  

30. Kothari, C. M. *Kothari’s Industrial Dictionary of India,* Kothari Prakashan, Vadodara, 1992, pp 142-44
Therefore, in order to welcome foreign investment which was in the interest of the country's industrial development, the Government has not only liberalised country's policy on foreign direct investment and technology transfer but also simplified the procedure so as to make the policy and its implementation transparent and objective.

Before the announcement of the new Industrial Policy of 1991, FDI was allowed only if it accompanied transfer of technology. Moreover, all proposal for approvals of FDI and foreign technology agreement (FTA) were considered and decided on the basis of a case to case discretionary approach. In a major break with this practice, the new policy provides that FDI need not be linked to FTA. It also provides for automatic approval of FDI upto 51 percent of those proposals which conform to specified parameters. 31

This relaxation of foreign equity should send the right signal to attract several multinational companies. Moreover, the multinational corporations could have 100 percent foreign equity, provided that the entire production is exported. Direct foreign investment assumes importance in the context of a serious domestic resources

crunch and a slow down in the flow of official development assistance. The resources of the multinational corporations, in terms of managerial expertise, technological know how and global influence, without doubt, can play a significant role in promoting export competitiveness.32

For the promotion of exports of Indian products in the world markets, the government will encourage foreign trading companies to assist Indian exporters in export activities. Besides, a special empowered board will be constituted to negotiate with a number of multinational corporations and to approve direct investment in selected areas so that purposive negotiations can be carried out with such large technology in the national interest. Sustained efforts will be made in this regard to attract substantial investment that will be provided access to high technology and world markets.33 The Government of India has taken the following decisions in this respect:

(i) Approval will be given for direct foreign investment upto 51 percent foreign equity in high priority industries (Annexure III).

(ii) While the import of components, raw materials and

intermediate goods, and payment of know how fees and royalties will be governed by the general policy applicable to other domestic units, the payment of dividends will be monitored through the RBI so as to ensure that outflows on account of dividend payments are balanced by export earnings over a due course of time.

(iii) Other foreign equity proposals, including proposals involving 51 per cent foreign equity which do not meet the criteria under (i) above, will continue to need prior clearance.

(iv) To provide access to international markets, majority foreign holding up to 51 percent equity will be allowed for trading companies primarily engaged in export activities.

Foreign Technology Agreements:

Today, technology is the greatest competitive weapon in the armour of foreign companies and nobody is going to part with high technology for below the poverty line royalty payments.  

In the fast changing world of technology, the relationship between the suppliers and users of technology

must be smooth and continuous one. So with a view to approach the desired level of technological dynamism, the government has decided to provide automatic approval of foreign technology agreements for direct investment of upto 51 percent equity in high priority industries (Annexure III) within specified parameters, which includes 34 areas such as metallurgical industries, electrical equipment, biolers and steam generating plants, transportation, industrial machinery, nitrogenous and phosphatic fertilizers, chemicals, printing machinery, industrial synthetic diamonds, prefabricated building material, soya products, food processing industries and hotels and tourism related industry and so on. Similar facilities will be available for other industries as well, if such agreements do not require the expenditure of free foreign exchange. Indian companies will be free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgements. The predictability and independence of action will induce to develop indigenous competence for the efficient absorption of foreign technology. Specific decisions of the government in this respect are as follows:

(i) Automatic approval will be given for foreign technology agreements in high priority industries (Annexure-III) upto a lumpsum payment of Rs.1 crore, 5 percent royalty for domestic sales and 8 percent for exports, subject to total payments of 8 percent of sales over a 10 year period from the data of agreement or 7 years from commencement of production. The prescribed royalty rates are not of taxes and will be calculated according to standard procedures.

(ii) In respect of industries other than those in Annexure III, automatic approval will be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

(iii) No approval will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies.

(iv) To provide access to international markets, majority foreign equity holding upto 51 percent equity will be allowed for trading companies primarily engaged in export activities.

Public Sector Policy:

The 1956 Industrial Policy Resolution gave the public sector a strategic role in the Indian economy. In
pursuit of development objectives, public ownership and control in critical sectors of the economy should play an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good. However, public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The most striking example is the take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of central public enterprises.\(^{36}\)

However, the Government has adopted a new approach to public sector enterprises. Units which may be faltering at present but are potentially viable, must be restructured and given a new base of life. The priority areas for growth of public enterprises in the future will be the following:

* Essential infrastructure goods and services
* Exploration and exploitation of oil and mineral resources,
* Technology development and building of

manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate,

Manufacture of products where strategic considerations predominate as defence equipment. 37

Besides, the public sector will not be debarred from entering areas not specifically reserved for it. Not only this but the Government will also strengthen its role in areas essential for Indian economy or those public sector enterprises which fall in the reserved areas of operation or are in high priority areas or are generating good or reasonable profits. Such enterprises will be provided a much greater degree of management autonomy through the system of memoranda of understanding competition will also be induced in these areas by inviting private sector participation. 38 Specific decisions of the Government in this regard are as follows:

(i) Public sector undertakings which are chronically sick and which are unlikely to be turned around for the formulation of revival and rehabilitation schemes will be referred to the Board for Industrial and Financial Reconstruction (BIFR) or other


similar high level institutions created for the purpose. A social security mechanism will be created by such rehabilitation package.

(ii) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high tech and essential infrastructure. While some reservations for the public sector is being retained there would be no bar for these areas to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in areas not reserved for it.

(iii) In order to raise resources and encourage wider public participation, a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector undertakings would be made more professional and given greater power. 39

Monopolies and Restrictive Trade Practices Act (MRTP Act):

The MRTP Act became operative with effect from June, 1970. With the emphasis placed on productivity in the Sixth Plan, major amendments to the MRTP Act were carried out in 1982 and 1984 in order to remove impediments to industrial growth and expansions. This process of change was given a new momentum in 1985 by an increase of threshold limit of assets. 40


The Government's decision to scrap the asset limit for MRTP companies would have significant repercussions on the industrial scenario. The move has been welcomed by the industry as a much needed diversion from the cumbersome 'Licence Raj'. Industrial experts reason that the rigmarole of getting a clearance under the MRTP Act had become just another routine bureaucratic barrier to cross. The most important objectives which are to be achieved through the MRTP Act are as follows:

(i) Prevention of market monopoly or concentration of economic power in few hands, and

(ii) Prohibition of monopolistic and restrictive and unfair trade practices.

It is also pointed out that the liberalization will lead to more competitiveness in the market situation with the emergence of more players. Consumer requirements would become the counterpart of all corporate strategies, making it extremely difficult for the substandard products to find a market for themselves. 41

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international market, the interference of the Government

through the MRTP Act in investment decisions of large companies has become deleterious in its effects on Indian industrial growth. The main thrust of policy will be more on controlling unfair or restrictive business practices.

The MRTP Act will be restructured by eliminating the legal requirement for prior government approval for expansion of present undertakings and establishment of new undertakings. The provisions relating to merger, amalgamation, and takeover will also be repealed. Similarly, the provisions regarding restrictions on acquisition and transfer of shares will be appropriately incorporated in the Companies Act. Simultaneously, provisions of the MRTP Act will be strengthened in order to enable the MRTP Commission to take appropriate action in respect of the monopolistic, restrictive and unfair trade practices. The newly empowered MRTP Commission will be encouraged to require investigation suo moto or on complaints received from individual consumers or classes of consumers.

The Government have taken the following measures:

(i) MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This would eliminate the requirement of prior approval from Central

Governent for establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover and appointment of directors under certain circumstances.\textsuperscript{43}

(ii) Necessary comprehensive amendment will be made in the MRTP Act in this regard and for enabling the MRTP Commission to exercise punitive and compensatory powers.

(iii) Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously, the newly empowered MRTP commission will be authorised to initiate investigations of all complaints received from individual consumers or classes of consumers regarding monopolistic, restrictive and unfair trade practices.

**Small and Tiny Sector:**

The small-scale industries sector emerged as a dynamic and vibrant sector of the economy during the Eighties. At the end of the Seventh Plan period, it accounted for nearly 25 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provided employment opportunities to around 12 million people. The primary objective of the small scale Industrial Policy during the Nineties will be to import more vitality and

\textsuperscript{43} Indian Express, New Delhi, July 25, 1991, p.1.
growth impetus to the sector to enable it to contribute its share fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts will be made to deregulate and debureaucratise the sector with a view to remove all fatters on its growth potential, reposing greater faith in small and young entrepreneurs.44

The New Industrial Policy for small and tiny sector was announced separately by the Government on August 6, 1991. It allowed industrial undertakings to participate up to 24 percent in the equity of small scale industries which will enable non SSI units to acquire a stake in small units. The investment limits in respect of 'TINY ENTERPRISES' were raised from Rs. 2 lakhs to Rs. 5 lakhs, irrespective of location of the unit. While the small scale sector (other than Tiny Enterprises) will be mainly entitled to one time benefits (like preference in land allocation/power concentration access to facilities for skill/technology upgradation), the Tiny Enterprises will also be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws.

In addition, it has also been decided to widen the scope of the National Equity Fund Scheme (NEFS) to cover projects upto Rs. 10 lakhs for equity support (upto 15 per cent) Single Window Loan Scheme (SWLS) has also been enlarged to cover projects upto Rs. 20 lakhs with working capital margin upto Rs. 10 lakhs. Composite loans under Single Window Scheme, now available only through State Financial Corporation (SFCs) and twin function State Small Industries Development Corporation (SSIDCs), will also be channelized through commercial banks. This will facilitate access to a large number of entrepreneurs. The policy measures which have been taken for promoting and strengthening Small, Tiny and Village Enterprises are as follows:

Financial Support Measures:

1) Inadequate access to credit both short term and long term remains perennial problem facing the small scale sector. Efforts will be made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector. A special monitoring agency would be set up to oversee that the entire genuine credit needs of the small scale enterprises are fully met.

2) To provide access to the capital market and to encourage modernization and technological upgradation it has been decided to allow equity participation by

other industrial undertakings in the SSI not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancilliarity and sub contracting, leading to expansion of employment opportunities.

3) Regulatory provisions relating to the management of private limited companies have been liberalized. A Limited Partnership Act will be introduced to enhance the supply of risk capital to the Small Scale Sector. Such an Act would limit the financial liability of the new and non active partners/entrepreneurs to the capital invested.

4) A beginning has been made towards solving the problem of delayed payments to small enterprises by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). The network of such services would be set up throughout the country and operated through commercial banks. A suitable legislation will be introduced to ensure prompt payment of Small Industries bills.46

Infrastructure Facilities:

1) To facilitate location of industries in rural and backward areas and to promote stronger coordination between industry and agriculture, a new Scheme of Integrated Infrastructural Development for Small Scale Industries would be implemented with the active participation of State Governments and financial institutions.

2) A Technology Development Cell (TDC) would be set up in the Small Industries Development Organization (SIDO) which provide technology inputs to improve productivity and competitiveness of the products of the small scale sector.

3) Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small scale sector, particularly the mini sub-sector. A proper and adequate arrangement for delivery of total package of incentives and services at the District Level will be evolved and implemented.

Marketing and Exports:

1) In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Mass consumption labour intensive products are being predominantly marketed by the organized sector. The small scale and tiny sector will henceforth, be enabled to have a significant share of such markets.

2) National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and SSIDCs would be established.

3) Though the small scale sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The Small Industries Development Organization (SIDO) has been recognized as the model agency to support the small scale industries in export promotion. An Export

47. The Times of India, New Delhi, August 7, 1991, p. 1.
Development Centre (EDC) would be set up in SIDO to serve the small scale industries.48

**Modernization Technological & Quality Upgradation :**

1) A re-oriented programme of modernization and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Specific industries in large concentration/clusters would be identified for studies in conjunction with SIDBI and other banks. Such studies will establish commercial viability of modernization, prescriptions, and financial support would be provided for modernization of these industries on a priority basis.

2) Indian Institutes of Technology (IITs) and selected Regional or other Engineering Colleges will serve as technological information, Design and Development Centres in their respective command areas.

**Promotion of Entrepreneurship :**

1) Government will continue to support first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programme (EDP). EDP would be built into the curricula of vocational and other degree level courses.

2) Women entrepreneurship will receive support through special training programmes. Definition of "women enterprises" would be simplified. The units in which

women entrepreneurs have a majority shareholding and management control, would be defined as "women Enterprises." 49

Simplification of Rules and Procedures:

1. The persistent complaints of small scale enterprises of being subjected to a large number of Acts and Laws, being required to maintain a number of registers and submit returns, and face an army of inspectors, would be attended to within a specified time frame of three months.

2. Procedures would be simplified, bureaucratic controls effectively reduced, unnecessary interference eliminated and paper work put down to the minimum to enable the entrepreneurs to concentrate on production and marketing functions.

Village Industries:

Handloom Sector: Handloom sector constitutes about 30 per cent of the total textile production in the country. It is the policy of the Government to promote handlooms to sustain employment in rural areas and to improve the quality of life for handloom weavers. Keeping in mind the local and regional needs, the Government have decided to redesign the schemes for the handloom sector into three major heads:

(a) Project Package Scheme: Under this scheme, area based projects for product development, upgradation of technology, improvement of marketing facilities will be increased.
(b) **Welfare Package Scheme**: Number of welfare schemes and quantum of funds earmarked for them will be substantially augmented.

(c) **Organisation Development Package**: Schemes for participation in the share capital will be re-drawn under organisational development scheme for imparting better management system in the existing state agencies.

The Janata cloth scheme which sustains weavers, often on a minimum level of livelihood, will be phased out by the terminal year of the Eighth Plan and replaced by omnibus project package scheme under which substantial funds will be provided for modernization of looms, training provision of better designs, dyes, chemicals and marketing assistance. The role of the National Handloom Development Corporation (NHDC) is also enhanced. NHDC will be the nodal agency for increasing the supply of hank yarn and of dyes and chemicals. The schemes for improving marketing of handloom products both domestically and internationally will be drawn up and accorded priority.

**Handicrafts Sector**: For the handicraft sector "Craft Development Centres" have been proposed to be set up which will ensure supply of raw materials design and technical guidance, market support, training and processing of related inputs in an integrated and area-based manner. Measures have also been proposed to be initiated to increase exports from this sector through new marketing.

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channels like trading companies, departmental stores, etc. In addition, the Government also recognizes the need to enhance the spread of rural and cottage industries towards stepping up non farm employment opportunities. The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards will also be expanded and the organization strengthened to discharge their responsibilities more effectively.  

In a nutshell, the rapid expansion of the industrial sector in the Eighties was due to the reform undertaken in trade and industrial policies in the early and mid 1980's. Further, policy changes and modifications were needed to sustain this and to provide the competitive stimulus for accelerated industrial growth during the Nineties. The past 1980 industrial policies were designed to deregulate the industrial economy in a substantial manner. The new liberalized measures are also designed to enable the Indian industry to forge much more dynamic relationships with foreign investors and suppliers of technology. The implications of these industrial policy measures on the overall industrial development of the country have been analysed in the forthcoming chapter.

ANNEXURE I

PROPOSED LIST OF INDUSTRIES TO BE RESERVED FOR THE PUBLIC SECTOR

1. Arms and ammunition and allied items of defence equipment, defence aircraft and warships.
3. Coal and lignite.
5. (Omitted vide Press Note NO. 3 of 1993 series dated 26.3.1993.)
8. Railway transport.

ANNEXURE II

LIST OF INDUSTRIES IN RESPECT OF WHICH INDUSTRIAL LICENSING WILL BE COMPULSORY

1. Coal and lignite.
2. Petroleum (other than crude) and its distillation products.
3. Distillation and brewing of alcoholic drinks.
4. Sugar.
5. Animal fats and oils
6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
7. Asbestos and asbestos based products
8. Plywood (veneers of all types) and other wood based products such as particle board, medium density fibre board, block board.
9. Raw hides and skins, leather, chamois leather and patent leather.
10. Tanned or dressed furskins.
11. (Omitted vide Press Note No. 4 of 1993 series dated 28.4.1993.)
12. Paper and Newsprint except bagasse-based units.
13. Electronic aerospace and defence equipment all types.
14. Industrial explosive, including detonating fuse, safety fuse, gun powder, nitrocellulose and matches.
15. Hazardous chemicals
16. Drugs and pharmaceuticals (according to Drug Policy)
17. Entertainment Electronics (VCRs, Colour TVs, CD players, tape-recorders).
18. (Omitted vide Press Note. 4 of 1993 series dated 28.4.1993.)
ANNEXURE III

LIST OF INDUSTRIES FOR AUTOMATIC APPROVAL OF FOREIGN TECHNOLOGY AGREEMENTS AND FOR 51 PER CENT FOREIGN EQUITY APPROVAL

1. Metalurgical Industries
   i) Ferro alloys
   ii) Castings and forgings.
   iii) Non ferrous metals and their alloys
   iv) Sponge iron and pelletisation
   v) Large diameter steel welded pipes of over 300 mm diameter and stainless steel pipes.
   vi) Pig Iron

2. Boilers and steam generating plants

3. Prime movers (other than electrical generators)
   i) Industrial turbines
   ii) Internal combustion engines
   iii) Alternate energy systems like solar wind, etc and equipment therefore.
   iv) Gas/hydro/steam turbines upto 60 MW.

4. Electrical Equipment
   i) Equipment for transmission and distribution of electricity including power and distribution transformers, power relays, HT switch gear synchronous condensers.
ii) Electrical motors.

iii) Electrical furnaces, industrial furnaces and induction heating equipment

iv) X-ray equipment

v) Electronic equipment, components including subscribers' and telecommunication equipment

vi) Components wires for manufacture of lead in wires

vii) Hydro/steam/gas generators/generating sets upto 60 MW.

viii) Generating sets and pumping sets based on internal combustion engines.

ix) Jelly filled telecommunication cables.

x) Optic fibre

xi) Energy efficient lamps and

xii) Midget carbon electrodes.

5. Transportation

i) Mechanised sailing vessels upto 10,000 DWT including fishing trawlers.

ii) Ship ancillaries

iii) a) Commercial vehicles, public transport vehicles including automotive commercial three wheeler jeep type vehicles, industrial locomotives.

b) Automotive two wheelers and three wheelers
c) Automotive components/spares and ancillaries.

iv) Shock absorbers for railway equipment
v) Brake system for railway stock and locomotives

6. Industrial machinery
   i) Industrial Machinery and equipment.

7. Machine tools
   1) Machine tools and industrial robots and their controls and accessories.
   1i) Jigs, fixtures, tools and dies of specialised types and cross land tooling.
   iii) Engineering production aids such as cutting and forming tools patterns and dies and tools.

8. Agricultural machinery
   i) Tractors
      Self propelled Harvester Combines.
   ii) Rice transplanters.

9. Earth moving machinery
   1) Earth moving machinery and construction machinery and components thereof.

10. Industrial instruments
    1) Indicating recording and regulating devices for pressure, temperature rate of flow weights levels and the like.
11. Scientific and electromedical instruments and laboratory equipment.

12. Nitrogenous and phosphatic fertilizers falling under
   i) Inorganic fertilizers under 18 Fertilizers' in the First Schedule to IDR Act, 1951.

13. Chemicals (other than fertilizers)
   i) Heavy organic chemicals including petrochemical
   ii) Heavy inorganic chemicals
   iii) Organic fine chemicals
   iv) Synthetic resins and plastics.
   v) Man made fibres.
   vi) Synthetic rubber.
   vii) Industrial explosives
   viii) Technical grade insecticides, fungicides, weedicides and the like.
   ix) Synthetic detergents
   x) Miscellaneous chemicals (for industrial use only)
      a) Catalysts and catalyst supports.
      b) Photographic chemicals
      c) Rubber chemicals
      d) Polyols
      e) Isocyanates, urthanes, etc.
      f) Speciality chemicals for enhanced oil recovery
      g) Heating fluids
h) Coal tar distillation and products therefrom.
i) Tonnage plants for the manufacture of industrial gases.
j) High altitude breathing oxygen/medical oxygen.
k) Nitrous oxide.
l) Refrigerant gases like liquid nitrogen, carbondioxide, etc. in large volumes.
m) Argon and other rare gases.
n) Alkali/acid resisting cement compound
o) Leather chemicals and auxiliaries

14. Drugs and pharmaceuticals
   According to Drug Policy

15. Paper
   i) Paper and pulp including paper products.
   ii) Industrial laminates.

16. Rubber products
   i) Automobile tyres and tubes.
   ii) Rubberised heavy duty industrial beltings of all types.
   iii) Rubberised conveyor beltings.
   iv) Rubber reinforced and lined fire fighting hose pipes.
   v) High pressure braided hoses
   vi) Engineering and industrial plastic products
17. Plate glass
   i) Glass shells for television tubes
   ii) Float glass and plate glass
   iii) HT insulators
   iv) Glass fibres of all types

18. Ceramics
   i) Ceramics for industrial uses

19. Cement products
   i) Portland cement
   ii) Gypsum boards, wall boards and the like.

20. High technology reproduction and multiplication equipment

21. Carbon and carbon products
   i) Graphite electrodes sand anodes.
   ii) Impervious graphite block and sheets

22. Pretensioned high pressure RCC pipes

23. Rubber machinery

24. Printing machinery
   i) Web fed high speed off set rotary printing machine having output of 300,000 or more impressions per hour.
   ii) Photo composing/type setting machines
   iii) Multi colour sheet fed off set printing machines of sizes of 18"x25" and above
   iv) High speed rotograture printing machines having output of 30,000 or more impressions per house
25. **Welding electrodes other than those for welding mild steel**

26. **Industrial synthetic diamonds.**

27. i) Photosynthesis improvers.
   
   ii) Genetically modified free living symbiotic nitrogen fixer.
   
   iii) Pheromones.
   
   iv) Bio insecticides.

28. **Extraction and upgrading of minor oils**

29. **Pre fabricated building material**

30. **Soya products**
   
   i) Soya texture proteins
   
   ii) Soya protein isolates
   
   iii) Soya protein concentrates
   
   iv) Other specialised products of soyabean
   
   v) Winterised and deodourised refined soyabean oil.

31. a) Certified high yielding haybrid seeds and synthetic seed.
   
   b) Certified high yielding plantlets developed through plant tissue culture.

32. **All food processing industries other than milk food, malted foods, and flour, but excluding the items reserved for small scale sector.**

33. **All items of packaging for food processing industries excluding the items reserved for small scale sector.**

34. **Hotels and tourism related industry.**
LIST OF ITEMS RESERVED FOR EXCLUSIVE MANUFACTURE IN SMALL SCALE SECTOR

1. Food and Allied Industries
2. Textile Products including hosiery
3. Art silk/man made fibre hosiery
4. Wood and wood products
5. Paper products
6. Leather and leather products including footwear
7. Rubber products
8. Plastic products
9. Injection moulding thermoplastic products
10. Chemicals and chemical products, laboratory chemicals and reagents.
11. Dye stuff (Basic dyes)
12. Azo dyes (Direct)
13. Acid dyes
14. Naphthols
15. Reactive dyes
16. Fast colour bases
17. Natural essential oils
18. Organic chemicals drugs and drug intermediates
19. Other chemicals and chemical product
20. Glass ceramics
21. Roofing tiles
22. Flooring tiles
23. Ceramic table wares and allied items in stone wares semi vitreous wares and earthen wares.
24. Mechanical Engineering excluding transport equipment
25. Electrical machines, appliances and apparatus including electronics electrical appliances.
27. Transport equipment boats and truck body building Autoparts, components and ancillaries and garge equipment.
28. Bicycle parts, tricycles and perambulators
29. Miscellaneous transport equipment.
30. Miscellaneous Mathematical and survey instruments.
31. Sports goods
32. Stationary items
33. Clock and watches
34. Others.