

CHAPTER 3

COMPARATIVE ANALYSIS OF INDUSTRIAL POLICIES OF INDIA AND KARNATAKA

3.1 Introduction

Pandit Jawaharlal Nehru laid the foundation of modern India. His vision and determination have left a lasting impression on every facet of national venture since Independence. The aims and objectives set out for the nation by Pandit Nehru on the eve of Independence, were namely, rapid development of agricultural and industrial sectors, 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 today. Any industrial policy must contribute to the comprehension of these aims and objectives at an accelerated pace.

3.2 Industrial Policies since Independence

The broad objectives of industrial policies were enunciated periodically in the Industrial Policy Resolutions (IPR), of 1948, 1956, 1973 and 1977. These policies focused on the following:

1. Stability to create favourable investment climate
2. Acceleration of the rate of economic growth and the speeding up of industrialisation for achieving a socialistic pattern of society
3. Increasing production and productivity, especially in the priority sectors
4. Encouraging small scale industries for employment generation and develop entrepreneurial talents
5. Achieve regionally balanced industrial development

6. Developing heavy and capital goods industries
7. Preventing of concentration of economic power by controlling of monopolies and large business houses
8. Controlling of foreign investment in domestic industries
9. Decentralisation and expansion of the small-scale, tiny and cottage industries.

It was realised that these industrial policies were not conducive for the growth of industrial sector. The growth of industrial production which floated around 8 per cent steadily prior to 1965 came down considerably by 1980. So there was a need to announce the industrial policy statement of 1980.

3.3 Industrial Policy Statement -1980

The industrial policy statement of 1980 enunciated on promotion of competition in the domestic market, up gradation of technology and modernisation of industries.

Important socio-economic objectives of the statement are:

1. Optimum utilisation of installed capacity
2. Higher productivity
3. Higher employment levels
4. Removal of regional disparities
5. Strengthening of agricultural base
6. Promotion of export oriented industries and
7. Consumer protection against high prices and poor quality.

3.4 Industrial Policy Measures during the 1980s

Policy measures were announced to instigate the efficiency of public sector undertakings (PSUs) by developing the management cadres in functional field's viz., operations, finance, marketing and information system.

Special incentives were granted to industrial units which were engaged in industrial processes and technologies aiming at optimum utilisation of energy and the exploitation of alternative sources of energy. For the development of the backward areas new industrial policy was announced in April 1983. The important objectives of this policy were introduction of the concept of 'No Industries District' (NID) to encourage entrepreneurs to locate their projects in these NIDs (of which 118 had been identified all over the country).

The liberalisation measures of the policy 1980:

De – licensing: 25 industries were delicensed by this policy. This was not available to Monopoly Restrictive Trade Practices /Foreign Exchange Regulation Act (MRTP/FERA) companies, small scale industries and industries in urban areas. In 1986, 23 MRTP/FERA companies delicensed, under the condition of locating in any of the centrally declared backward areas. In 1988, only 26 industries specified in the negative list, were not exempted from licensing.

Broad Banding: Broad Banding was first provided in 1985, with a view to secure economies of scale to increase the production and to make manufacturers to adjust their product mix on the basis of market demand.

Licensing Minimum Capacity: To stop the effectual dis-economies of scale and high cost economy dependent on fiscal as well as physical protection, government persuaded re-endorsement of industrial capacity of license with reference to minimum economic scales of operation.

Re-Endorsement of capacities on Licenses Based on Maximum Production:

In 1988, the policy introduced a scheme for re-endorsement. The scheme intimated the industrial undertakings that their best production in future would be recognised and authorised. The scheme withdrawn locational restriction on MRTP/FERA.

Liberalisation in respect of MRTP Companies: This measure raised the asset limits for a MRTP undertaking from Rs.20 crores, this enabled a number of industries to come up with expansion and diversification plans to give a momentum to the economy. This scheme delicensed almost 100 items of MRTP companies.

Period of validity of letters of Intent/Registration: Under this scheme three years time period was decided by the Government to issue the letters of intent for conversion of license.

The industrial policy statement of 1980 differs in many respects with earlier industrial policies. Important breakthrough of this industrial policy was the introduction of liberalisation measures, thus instigated the industries to be highly competent in domestic market. But the earlier policies focused on the control of monopolies and large business houses, regulation of import of foreign technology and foreign capital. In these respects the industrial policy of 1980 departure from the earlier policies.

3.5 Industrial Policy Statement 1991

Industrial policies pursued since independence did not change the Indian industrial scenario, however being relevant in the early stages of development. So there was a need to initiate new industrial policy in India, thus the Government announced the statement on industrial policy on July 24, 1991.

3.6 The important objectives of New Industrial Policy, 1991 are:

1. To consolidate the strengths built up during the last four decades of economic planning and to build on the gains already made
2. To correct the distortions or weaknesses that may have crept-in the industrial structure developed over the last four decades
3. To maintain sustained growth in productivity and gainful employment
4. To attain international competitiveness and technological dynamism, and
5. To transform India into a major partner and player in the global arena.

3.7 Salient features of industrial policy 1991 are:

1. The numbers of industries reserved for public sector were reduced from 17 to 8⁶ to create opportunities for the growth of private sector.
2. For liberalising the economy the industrial licensing was abolished for all industries except those specified, irrespective of levels of investment. ⁷It is necessary for these industries for compulsory licensing because of related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues, hazardous chemicals and articles of

⁶ List attached in Appendix.

⁷ Ibid

hazardous consumption. The industries under small scale sector need to be reserved.

3. The projects which have foreign exchange for imports of capital goods through foreign equity are eligible for automatic clearance. These projects must get clearance from the Secretariat for Industrial Approvals (SIA) in the Department of Industrial Development based on the availability of foreign exchange resources.
4. There is no need of industrial approvals for the location not falling within 25 kms of cities having more than 1 million populations. Environmental friendly industries like, electronics, computer software and printing can be located within 25 kms of the periphery of cities with more than one million populations.
5. To reduce the cumbersome work of registration and enable the entrepreneurs to file an information memorandum on new projects and for substantial expansion the policy abolished all registration schemes.
6. High priority industries⁸ are eligible for foreign direct investment upto 51 per cent foreign equity in trading companies primarily engaged in export activities. The government established Foreign Investment Promotion Board to negotiate with a number of large international firms and approve foreign direct investment in selected areas.
7. The high priority industries with specific characteristics were given automatic approval for foreign technology agreements upto a lumpsum payment of \$2

⁸ List attached to Appendix

million. Even other industries also avail these facilities if such agreements do not require the expenditure of foreign exchange. Prior permission is not required for hiring foreign technicians and foreign testing of indigenously developed technologies.

8. Disinvestment policy was announced in 1991-92 by selling minority stakes in public sector undertakings with the objectives of improve the strategic performance of the PSUs, to create conditions conducive to raising productive efficiency in all dimensions, to raise resources within the public sector to meet the expenditure of Voluntary Retired Service (VRS), restructuring and retraining of workers.
9. To reinvigorate and rehabilitate chronically sick PSUs, there is a provision of referring them to the Board for Industrial and Financial Reconstruction (BIFR). In this respect there is a autonomy for PSUs.
10. There is amendment in the Monopoly Restrictive Trade Practices (MRTP) to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. Now these companies are not required to get license to enter any area of production.

3.8 State Level Industrial Policies

India has the federal system of central and state governments. Under this system, the state governments also have certain functions in industrial development. State government's responsible for regional development, dispersal of industries to backward areas, promotion of small scale industries for generating employment opportunities especially in rural areas.

3.9 Karnataka State Industrial Policy 1983

There was a change in the industrial scenario of India after the first round of liberalisation in the mid eighties. Following these industrial reforms, the state of Karnataka also introduced policies for the development of industries. The state has been constantly pursuing progressive industrial policies to fulfill the changing needs of the State's economy and industry and it is the first state in the country to have brought out a State Industrial Policy during 1982-83

The salient features of the Industrial Policy Resolution of 1983 are:

1. Introduction of suitable plans and programmes to increase the output productivity of village artisans, make availability of raw materials and to provide marketing tools and techniques.
2. Development of processing industries of agricultural products
3. Encouragement of Khadi and Village industries
4. Promotion of leather industries
5. Development of agro-based industries
6. Encouragement of large and medium industries to come up in growth centres at Mysore, Belgaum, Hubli-Dharwad, Mangalore, Shimoga, Bhadravathi, Hassan, Dawangere, Raichur, Gulburga, Bidar.
7. Adequate support to export-oriented industries
8. Investment restriction in the State managed and state owned industries
9. Encouragement and development of entrepreneurial talent by proper training programmes and institutions.

3.10 New Industrial Policy 1990-95

Removal of regional imbalances and exploitation of strengths were the main focus of the New Industrial Policy 1990-95. Industrial activities having large potential for employment generation have been given top priority.

The objectives of the policy are:

- a) Khadi and Village Industries (KVI) sector and artisan based industries were given special attention since they serve the twin objectives of employment generation and rural industrialisation
- b) A homogeneous and balanced growth of industries in all sectors viz" Tiny, Small, Medium & Large Scale
- c) Backward area development through dispersal of industries.
- d) Special incentives to entrepreneurs belonging to SC/ST, Women, Physically handicapped. Ex-servicemen and Minority community
- e) Special concessions for industries in thrust sectors (Tiny, Small, Medium and Large scale industrial units)
- f) Creation of employment opportunities to the local people
- g) Development of growth centres with widespread infrastructural facilities
- h) Development of electronic cities
- i) Strengthening of promotional activities of Karnataka State Industrial Infrastructure Development Corporation (KSIIDC) and Karnataka State Small Industries Development Corporation (KSSIDC).

The broad features of package of incentives and concessions:

State was divided into four zones

Zone I	Bangalore North and South Taluks and Bangalore urban
Zone –II	38 less backward taluks
Zone –III	129 backward taluks
Zone –IV	6 taluks & 3 Growth Centres Dharwad, Hassan, Raichur.

The special features of this package are:

1. Investment subsidy for all sectors
2. Sales tax exemption for all sectors
3. Special concessions for electronics, telecommunication and informatics to encourage industries in electronic cities.
4. Additional concessions to special categories of entrepreneurs
5. Incentives for installation of pollution control equipment
6. Exemption from stamp duty and concessional registration charges for tiny and small scale industries
7. Incentives for rehabilitation of sick units.

The new industrial policy of 1990-95 is a comprehensive one. The important objectives are homogeneous and balanced growth of all the sectors viz, tiny, small, medium and large scale etc, special concessions for thrust sector industries, implementation of locational policies for dispersal of industries. These objectives are

differing from the objectives of 1983 policy. In the above respects the new policy departs from the 1983 policy.

3.11 Revised Policy 1993-98

Soon after the announcement of economic reforms and the New Industrial Policy by the centre in July 1991, Karnataka state also announced its New Industrial Policy 1993 and package of incentives and concessions applicable for the period between 1993 and 1998.

The broad features of the new package of incentives are:

1. The state was divided into 3 zones.

Zone I	Developed Bangalore South and North, Bangalore urban agglomeration
Zone –II	Developing Rest of the States
Zone –III	Growth Centres Hassan, Dharwad and Raichur

2 a. Investment Subsidy is applicable only for tiny and small scale units, 25 per cent of value of fixed asset as investment subsidy to environmental friendly, high technology industries within the tiny and small sector in developed zone

b. Additional 5 per cent subsidy subject to a ceiling of Rs.5 lakh for tiny and small industries for developing areas and growth centres.

c. Investment subsidy for expansion, modernisation and diversification.

3. SC/ST, minority communities, women, physically handicapped, ex-servicemen etc. are eligible to avail 5 per cent investment subsidy of the value of fixed assets subject to a ceiling of Rs. 1.00 lakh only under tiny and small scale units in under all the zones.
4. High-technology and non-polluting industries of tiny, small, medium and large scale sectors are permitted to be located even in zone-I.
5. Sales tax concessions/ sales tax deferral is given to industries in zone-II
6. Sales tax concession to Thrust Sector Industries in developing areas and growth centres.
7. Khadi and Village Industries Sector (KVI's exempted from payment of Central Sales Tax (CST) & Karnataka Sales Tax (KST) on sale of finished goods.
8. Sales Tax Concessions for industries in all the three zones for expansion/diversification/modernisation.
9. Mega industrial investments involving capital outlay excess of Rs. 100 crores are eligible for special incentive package depending on the merits of each case location, employment potential and scope for downstream industrial development etc.
10. Export Oriented Units (EOU) are eligible to get the following concessions
 - a. Eligible for investment subsidies
 - b. Exempted from the power cuts imposed by Karnataka Electricity Board (KEB) from time to time
 - c. Exempted from sales tax on raw materials, components, packaging materials, consumables, capital goods, spares, material handling equipment, intermediates

and semi finished goods and sub-assemblies procured from industrial units within the State.

11. Exemption of stamp duty and reduction in registration charges are available for industries anywhere in the State, except for developed areas.
12. Waiver of conversion fee for converting the lands (up to 2 acres) from agricultural use to industrial use are only for Tiny and SSI units in developing areas and growth centres.
13. SSI units in the developing areas, growth centres and specified units in developed areas were exempted from power cut for a period of five years from the date of commencement of commercial production.

There are some similarities in objectives and features of the policies of 1990-95 and 1993-98. However, the industrial policy of 1993-98 departed from the previous policy with respect to a few aspects such as reclassification of developed and developing areas, high- technology and non polluting industries in tiny, small, medium and large scale sectors permitted to be located even in developed areas, exemption of stamp duty and concessional registration charges and waiver of conversion fee for converting agricultural lands to industrial purpose.

To correct the defects experienced by the Industrial Policy of 1993-98 the Government of Karnataka introduced the new industrial policy for 1996-2001.

3.12 The objectives of the policy 1996-2001 are:

1. To improve the infrastructural facilities
2. To develop potential growth centers
3. To encourage growth in export of value added goods

4. Measures for conservation/ optimum utilisation of scarce/precious resources, such as land, water and energy
5. To encourage utilisation of non conventional sources of energy and co-generation
6. To enhance human resources and entrepreneurship development
1. 7 To maintain, regenerate-rejuvenate environment and ecology
10. To simplify rules and regulations
11. To provide marketing assistance

Broad features of Industrial Policy:

1. The state was divided into 3 zones.

Zone I	Developed Bangalore South and North and Bangalore agglomeration
Zone II	Developing Rest of the states (173 talukas)
Zone III	Three growth centres Hassan, Dharwad and Raichur

2. a. Small Scale units (including ancillary and export units) eligible for investment subsidy. Non polluting units manufacturing pollution control and effluent treatment plant, equipment and biotechnology units within the tiny and small scale sector in the developed areas can avail 25 per cent of value of fixed asset as investment subsidy.
- b. Additional 5 per cent subsidy subject to a ceiling of Rs.5 lakh is provided to thrust sectors in tiny and small industries in developing areas.

- c. Investment subsidy granted for new industrial investments for expansion, modernisation and diversification. However, there is a prescribed monetary ceiling limit.
 - d. SC/ST, minority communities, women, physically handicapped, ex-servicemen etc. are eligible to avail additional 5 per cent investment subsidy of the value of fixed assets subject to a ceiling of Rs. 1.00 lakh only under tiny and small scale units in all the zones.
3. Subsidy available for industrial estates promoted by private/cooperative sector towards the development of infrastructure at the rate of 20 per cent subject to ceiling of Rs. 20 lakhs.
 4. The units which install equipment for utilisation of renewable source of energy were offered incentives up to 10 per cent on each unit subject to a maximum ceiling of 5 lakhs per unit.
 5. Installing of equipment towards captive power generation are eligible for incentives, for all units in zones II,III and specified units in zone I. All new industrial units which utilise diesel oil, LSHS and Furnace oil for captive power generation were refunded sales tax paid on such fuels for a period of five years, exempted from Electricity Tax for a period of five years. Existing industries in Tiny/SSI sector which install Captive Power Generation (CPG) units without any additional production were eligible for investment subsidy of 10 per cent of the cost of such equipment to a ceiling of Rs.10 lakhs.
 6. Permission for high-technology and non polluting industries in tiny and small scale sector (specified) to be located even in developed areas. They are also

eligible for investment subsidy, and concessions towards sales tax exemption/sales tax deferral.

7. a. Sales tax exemption or deferral (Karnataka Sales Tax/Central Sales Tax) available for tiny, small scale, medium and large scale sectors.
- b. Thrust Sector industries set up in developing areas and growth centres are eligible to avail sales tax exemption or deferment extended by one more year without any increase in the ceiling limit.
- c. Sales tax exemptions or deferment extended by one more year, for units in developing areas and growth centres set up by special categories of entrepreneurs and for eligible hi-tech and polluting industries in developed areas.
- d. Industrial units in specified categories in all the three zones were eligible for sales tax exemption/sales tax deferment as applicable to new industrial units.
- e. Existing units undertaking new investments for modernisation without any additional production, but leads to significant improvement in one or more of the specified areas were sanctioned a grant in aid of 10 per cent of the capital cost of such modernisation projects subject to a ceiling of Rs.10 lakhs. This benefit is extended to all units irrespective of their size and location.
- f. All KVI Units were exempted from payment of Central Sales Tax (CST) & Karnataka Sales Tax (KST) on sale of finished goods.

8. Large industrial investments involving capital outlay excess of Rs. 100 crores were eligible for special incentive package depending on the merits of each case and according to the range of investment, scope for downstream industrial development, employment potential, etc.
9. Manufacturers of two wheelers, passenger cars, Low Capacity Vehicles (LCV)s and High Capacity Vehicles (HCV) were offered a special package of incentives and concessions based on merits.
10. Industrial infrastructural projects irrespective of the investment limit were considered for a special package of incentives and concessions based on merits.
11. Export Oriented Units (EOU) concessions:
 - a. Availability of investment subsidies for units other than 100 per cent EOUs a minimum of 25 per cent of value of total turnover have to be exported.
 - b. Exempted from the power cuts imposed by Karnataka Electricity Board (KEB) from time to time
 - c. Exempted from entry tax on raw materials, components, packaging materials, consumables, capital goods, spares, material handling equipment, intermediates and semi finished goods and sub-assemblies procured from industrial units within the State.
12. All new Tiny and Small Scale Industries, and also such units taking up expansion/diversification/modernisation, located anywhere in the state, except in developed areas were eligible for exemption of stamp duty and reduction of registration charges to Rs.1 per thousand in respect of loans and credit deeds

executed for availing financial assistance from state government and /or recognised financial institutions.

13. Waiver of conversion fee for converting the lands (up to 2 acres) from agricultural use to industrial use are only for Tiny and SSI units setup in developing areas and growth centres

14 All the new tiny and Small Scale Industries (SSI) units were exempted from power cut for a period of five years from the date of commencement of commercial production, in zones II and III and also only for specified categories in zone-I.

The industrial policy of 1996-2001 is similar to the policy of 1993-98 in many respects, but differ in few aspects viz, introduction of package of incentives and concessions for automobile sector. It is clear from the provisions of industrial policy statements that changes have not been perceived at the state level about their changed role in promoting industrial growth, especially large and mega industries and industrial parks.

The national intension of removal of sales tax based incentives, adoption of uniform floor rates for taxes, the threats and opportunities thrown up by the multilateral trading regime under the World Trade Organization (WTO), the primacy of technology, intellectual property rights and global competition have together given rise to the need for a new approach to industrial development. With respect to above points, Government of Karnataka introduced another Industrial Policy 2001-2006.

3.13 The objectives of the policy 2001-2006 are as follows:

- a) Encourage rapid growth of sectors and markets in which Karnataka has strategic advantages
- b) Enhance value addition in products and processes through rapid technology upgradation
- c) Enable optimal utilisation of capacity and resources in different sectors viz., Agriculture, Horticulture, Animal Husbandry, Minerals and Human capital
- d) To make industry to access new markets - domestic and export – through new products to meet global standards of quality and competitiveness
- e) Give impetus to knowledge based industries and the service sector
- f) Create a market driven environment with the private sector being the primary engine of growth
- g) Provide industry access to high quality infrastructure
- h) Fully tap the potential of the small scale sector and encourage establishment of new tiny and small scale industries, particularly in the rural areas to achieve the twin objectives of employment generation and utilisation of local resources.

1. State was classified into four zones namely

- 1. Zone – I Developed areas
- 2. Zone – II Developing areas
- 3. Zone – III Backward areas
- 4. Zone – IV Growth centres and mini growth centres

2. Investment Subsidy:

- a. All new tiny and small scale industries other than developed areas were eligible for investment subsidy.
 - b. New industrial investments for expansion, modernisation and diversification were eligible for investment subsidy. However, grant was not exceeded the prescribed monetary ceiling limit.
 - c. Additional subsidy of 5 per cent of the value of fixed assets maximum to a ceiling of 1lakh was available for tiny and small scale units except in developed area, for the entrepreneurs belonging to SC/STs, women, and minority categories.
3. All new units including medium scale and large scale industries eligible for entry tax exemption on
- a. Production of machinery and equipments which were directly involved in production process, under the condition that the benefit was available for a maximum period of three years from the date of commencement of project implementation.
 - b. Commencement of commercial production on raw materials, components, semi-finished goods, sub-assemblies, consumables (excluding petroleum products like petrol, diesel, furnace oil, naphtha and LSHS used as consumables or for captive power generation units) applicable for all zones except zone- I.
4. 100 per cent exemption of Stamp Duty and reduction of registration charges to Rs.1 per 1000 with respect to agreements, credit deeds, and mortgage and

hypothecation deeds executed for availing financial assistance from state government and /or recognised financial institutions is available for all new industries and for units involved in expansion, diversification and modernisation.

a. Investment subsidy as applicable for thrust sector industries were available for EOU industries also.

5. Export Oriented Units (EOU) Concessions

a. These units are eligible for investment subsidies for units other than 100 per cent EOUs a minimum of 25 per cent of value of total turnover have to be exported.

b. Exempted from the power cuts imposed by Karnataka Electricity Board (KEB) from time to time

c. Exempted from entry tax on raw materials, components, packaging materials, consumables, capital goods, spares, material handling equipment, intermediates and semi finished goods and sub-assemblies procured from industrial units within the State.

6. Mega projects having investments in fixed assets in excess of Rs.100 crores coming under three zones(II,III & IV) were eligible for exemption from entry tax and reduction of stamp duty and registration charges depending on the location of the project in different zones. They are also eligible for exemption of entry tax for machinery and equipments during project implementation.

7. The payment of conversion fee for converting the land from agriculture use to industrial use was waived for tiny and SSI units set up in all areas other than zone –I, this concession was limited to a maximum extent of 2 acres only.
8. Sick industries are eligible to get the following benefits for their revival/rehabilitation:
 - a. There is no fixed or demand charges by Karnataka Power Transmission Corporation Limited (KPTCL) during closure period. Energy bill arrears to KPTCL and tax arrears to the Commercial Tax Dept to be repaid in six and half-yearly installments and interest charges for defaults were reduced to 0.5 per cent per month. There are no interest charges by Both KPTCL and Commercial Tax Dept for the closure period. There is tax deferral without interest for future taxes for a period of three years.
 - b. This scheme is also available for SSI & Medium Scale Industries which were covered by BIFR for revival and rehabilitation.

The industrial policy of 2001-06 is not much differing from the previous policy 1996-2001, except in few aspects. Private sector participation, enhancement of knowledge based and service based industries were the two important objectives set out in the 2001 policy, while the industrial policy of 1996 gave much prominence for public sector undertakings.

There was a need to enhance employment in the non-farm sector. This is because to meet the aspirations of the educated youths in the rural areas who need to be encouraged to set-up micro-enterprises as an employment generation scheme and also for economic development of the rural and backward areas. With these aspects Government of Karnataka has announced its new industrial policy 2006-11.

3.14 The objectives of the Policy 2006-11 are:

- a) To facilitate the State to achieve a Gross State Domestic Product (GSDP) growth of over nine per cent
- b) Strengthening of the manufacturing industry and to increase its percentage share of the GSDP by the end of the policy period
- c) To achieve an increased share of Karnataka's exports in the National exports from the present 15 per cent to 20 per cent by the end of the policy period
- d) To create additional employment generation to at least 10.00 lakh persons in the manufacturing and service sectors during the policy period
- e) Promote diversified industrial base with strength in both old economy & new economy fields
- f) Facilitate reduction of regional imbalances in economic opportunities, employment and growth
- g) Endeavor to promote sustained industrial growth by facilitating accelerated flow of investments
- h) To promote sustained, growth oriented industrialisation with employment & revenue generation, for overall socio-economic development of the State

The special package of incentives and concessions are:

1. The state was divided into three Zones

Zone-1	Most backward Taluks	79
Zone-2	Taluks not covered in Zone 1 & 3	85
Zone-3	Bangalore Urban & Rural Districts Mangalore and Mysore Taluks.	12

2. Capital Investment Subsidy:

- a. Only small scale industries can avail investment subsidy under zone –I&II. The units under zone-1 can get 25 per cent of value of fixed assets as investment subsidy and 20 per cent subsidy for zone II.
 - b. For SC /ST / PH / Minority & X-Serviceman entrepreneurs there is additional subsidy of five per cent of the value of fixed assets, subject to a ceiling of Rs.1 lakh. The ceiling for additional subsidy for women entrepreneurs is Rs. 5 lakhs.
 - c. The units which are financed by KSFC/KSIIDC/ Banks/Other financial institutions eligible for subsidy.
3. All industries in three zones are eligible for special onetime capital subsidy up to 50 per cent of the cost of ETP, subject to a ceiling of Rs. 100 lakhs per unit.
 4. Units which come under zone 1&2 availed loans from KSFC/KSIIDC for technology upgradation eligible for 4 per cent interest subsidy.
 5. SSI Units under all the three zones going in for Bureau of Indian Standards (BIS) product certification or International Standard Organisation (ISO) series certification were eligible for incentive with enhanced financial allocation.
 6. All the three zones eligible for patents registration subsidy at 50 per cent of the cost of patents registration, subject to a ceiling of Rs.2 lakhs per unit.
 7. There is entry tax and special tax exemption for industries under zone- on plant & machinery and capital goods for an initial period of three years from the date of commencement. Raw material, inputs, component parts & consumables (excluding petroleum products) can also avail the concession for a period of five years from the date of commencement of commercial production.

8. Exemption from Electricity Duty on Captive power generation under Energy Dept, upto 2011.
9. All industries irrespective of their size under most backward and backward areas located anywhere in the state were exempted from stamp duty and reduction of registration charges to Rs.1 per thousand in respect of loan & credit deeds executed for availing term loans from FIs/Banks.

This concession was available for lease, lease cum sale & absolute sale deeds in respect of industrial lands/plots allotted by state infrastructural agencies viz, KIADB/KSSIDC.

10. There is AMC cess exemption for processing industries which procure agriculture produce like cereals, oil seeds, fruits & vegetables directly from farmers.

The industrial policy of 2006-11 focused on strengthening manufacturing industries, promotion of exports and sustained growth which varies with the earlier policy of 2001-06. In order to achieve these objectives this policy introduced special incentives and concessions which have not been introduced by the earlier industrial policies. Incentives and subsidies like patent right subsidy, technological upgradation subsidy and exemption of AMPC cess are new features introduced by this policy. Thus this policy signifies departure from the earlier policy of 2001-06.

To increase GSDP, promote the manufacturing sector to generate additional employment in different sectors, encourage diversified industrial base and to reduce regional imbalances and also to increase the share of exports from Karnataka in the national exports, the Government of Karnataka introduced New Industrial Policy 2009-14.

3.15 The mission of the Industrial policy 2009-14:

- a. To create conducive environment for robust industrial growth
- b. To ensure inclusive industrial development in the State
- c. To provide additional employment for about 10 lakh persons by 2014
- d. To enhance the contribution of manufacturing sector to the State's GDP from 17 per cent to 20 per cent by the end of policy period.

New Package of Incentives and Concessions:

1. The state was classified into four zones.

Zone – I 39 most backward taluks

Zone – II 40 more backward taluks

Zone – III 85 backward taluks

Zone – IV 12 industrially developed taluks

2. Investment Promotion Subsidy is available for industries under all 3 zones except zone 4.

- a. Every year there would be 25 per cent of the subsidy released on refund basis towards the payment of Gross Value Added Tax (VAT), Employee State Insurance (ESI) and Private Equity Fund (PEF) and power tariff. For the enterprises which do not use power and not covered under VAT, EPF, ESI the subsidy will be released against the loan dues.
- b. This is also available for enterprises borrowing term loan to an extent of minimum 50 per cent cost of fixed assets, and within the period of five years.

- c. 5 per cent additional subsidy subject to a maximum of Rs.1.00 lakh, Rs.3.00 lakhs and Rs.5.00 lakhs provided for Micro, Small and Medium Manufacturing Enterprises is applicable for SC/ST, Women, Physically challenged, Ex-Servicemen Entrepreneurs and enterprises coming up in most backward taluks of Hyderabad Karnataka region.
3. All units under zone 1,2 &3 are exempted from stamp duty and reduction in registration chares to Rs.1 per thousand in respect of loan agreements, credit deeds, mortgage and hypothecation deeds executed for availing term loans from State Govt. and / or recognized financial institutions, and for lease deeds, lease-cum-sale and absolute sale deeds executed by industrial enterprises in respect of industrial plots, sheds, industrial tenements, by KIADB, KSSIDC, KEONICS, KSIIDC, Industrial Co-operatives and approved private industrial estates.
4. All Projects of first three zones are eligible for conversion fee for converting the land from agriculture use to industrial use including for development of industrial areas by private investors. The waiver of conversion fee will be on reimbursement basis after implementation of projects.
5. All Projects in first eligible to avail 100 per cent exemption from Entry Tax (ET) on 'Plant & Machinery and Capital Goods' including machineries for captive generation of electricity for an initial period of three years from the date of commencement of project implementation, on raw materials, inputs, component parts & consumables (excluding petroleum products) for a period of five years from the date of commencement of commercial production.

6. All 100 per cent Export Oriented Enterprises irrespective of their size exempted from payment of ET on 'Plant & Machinery and Capital Goods' for an initial period of three years from the date of commencement irrespective of zones.
7. The new and existing industries in the first three zones involved in procurement of agriculture produce directly from farmers for processing are eligible for exemption of AMPC Cess / fees for a period of five years, four years and three years respectively.
8. All industries irrespective of their size are eligible for one time capital subsidy upto 50 per cent of the cost of Effluent Treatment Plants (ETPs), subject to a ceiling of Rs.100 lakhs per manufacturing enterprise in the first three zones and a ceiling of Rs. 50 lakhs in zone-4.
9. All new large and mega manufacturing enterprises established in zone 1, 2 and 3 shall be offered interest free loan on VAT.
10. Anchor unit subsidy of Rs.100 lakhs shall be offered for the first two manufacturing enterprises with minimum employment of 100 members and minimum investment of Rs.50 crores in each of the taluks under zone- 1, 2 & 3. This subsidy will be applicable only in taluks where there are no existence of industrial enterprises with investment of Rs.50 crores and above.
11. New large scale enterprises setting up in six districts having bottom most Human Development Index (HDI) viz, Bagalkot, Koppal, Bijapur, Chamrajnagar, Gulbarga and Raichur employing atleast 75 per cent local persons as defined in the Sarojini Mahishi recommendations will be offered 75 per cent reimbursement of

expenditure on account of contribution towards Employees State Insurance (ESI) and Employees Provident Fund (EPF) scheme for a period of initial five years.

12. Micro manufacturing enterprises can avail interest subsidy of 5 per cent per annum. The period of interest subsidy is five years, four years and three years for zone -1, 2 and 3 respectively.

13. All Micro & Small Manufacturing Enterprises are eligible for 100 per cent exemption of electricity duty / tax for the initial period of five years, four years and three years in zone – 1, 2 and 3 respectively.

14. Technology Upgradation, Quality Certification and Patent Registration:

i) Micro & Small Manufacturing Enterprises under the first 3 zones are eligible for 5 per cent interest subsidy on Technology Upgradation loans from Karnataka State Financial Corporation (KSFC), Karnataka State Industrial Infrastructure Development Corporation (KSIIDC) & scheduled commercial banks, which are not covered under Credit Linked Capital Subsidy Scheme (CLCSS) of GOI.

(ii) Micro and Small Manufacturing Enterprises irrespective of their zones eligible to get International Standard Organisation (ISO) series certification at the maximum ceiling of Rs.75,000.

(iii) To get Bureau of Indian Standards (BIS) Certification 50 per cent of fees payable to BIS for purchase of testing equipments approved by BIS.

(iv) For Patent registration 75 per cent of cost of fees payable to Patent Office towards attorney fees, patent search etc.

(v) For Technology Adoption 25 per cent of cost (max. Rs.50,000) from recognised national laboratories.

15. Small & Medium Manufacturing enterprises in all zones are eligible for concession of 50 per cent of cost maximum of Rs.1 lakh for rain water harvesting, 50 per cent of cost maximum of Rs.5 lakhs for waste water recycling and 50 per cent of cost maximum of Rs.5 lakhs for zero discharge process.
16. Small & Medium manufacturing enterprises in all zones are eligible for 10 per cent of capital cost (maximum of Rs.5 lakhs) concession for reduction in energy consumption of atleast 10 per cent of earlier consumption and use of non-conventional energy sources.
17. Medium, Large and Mega Manufacturing Enterprises in all zones employing more than 100 persons are applicable for 50 per cent reimbursement of expenditure incurred for employees coming under reserved category towards contribution to ESI & EPF schemes for a period of initial five years.
18. Micro & Small Manufacturing Enterprises under the first three zones incurred cost for preparation of project reports by Technical Consultancy Services Organisation of Karnataka,(TECSOK) Centre for Entrepreneurship Development of Karnataka, (CEDOK) and Karnataka State Financial Corporation (KSFC) or any other recognized institutions for availing loans shall be reimbursed to the maximum of Rs.10,000/- per unit subject to financing of the unit.
19. New sugar factories and existing sugar factories that have not availed purchase tax deferment having co-generation facilities and ethanol production would be considered for conversion of purchase tax on sugarcane as interest free loan on case to case basis depending on the financial position of the factory.

The new industrial policy introduced in 2009 is a comprehensive one which offered some different incentives, like interest free loan on VAT (Value Added Tax),

anchor unit subsidy, interest subsidy and incentives for energy and water conservation, special incentives for enterprises coming up in low HDI districts and interest free loans to sugar sector. .Because of the special features the policy of 2009 departure from policy of 2006-11.

3.16 Comparative Analysis of Industrial Policies of India and Karnataka

Though being conducive for the growth of industries from the regional perspective the industrial policy measures of central government differ in few respects. They are summarised below.

1. Developing heavy and capital goods industries
2. Optimum utilisation of installed capacity
3. Consumer protection against high prices & poor quality
4. Announcement of new industrial policy 1983 for backward area development
5. Initiation of measures towards technological & managerial modernisation to improve productivity, quality and to reduce cost of production
6. De licensing, Broadbanding, Licensing minimum capacity, Re-endorsement of capacities on licenses based on maximum production, Liberalization in respect of MRTP companies, Period of validity of letters of intent/registration
7. Optimum utilisation of human resources
8. Attainment of international competitiveness and technological dynamism
9. Transform India into a major partner and player in the global arena
10. Implementation of Disinvestment policy 1991-92
11. Amendment of MRTP Act
12. Introduction of Small Scale Industrial Policy August 1991.

The state of Karnataka pioneer in industrial policies has adopted many incentives, concessions and provisions for the growth of industries. The important measures from which the Karnataka industrial policies are differ from the central government policies are mentioned below:

1. Development of processing industries of agricultural products
2. Encouragement of Khadi and village industries
3. Special incentives to entrepreneurs belonging to SC/ST, women, physically handicapped, ex-servicemen and minority community
4. District level committee to recognise, supervise and revitalize sick SSI units
5. District Industrial Centres.
6. Development of ancillary industries
7. Emphasise given for electronic cities
8. Relief Package for Revival/Rehabilitation of Sick Industries
9. Single window agency at the state and district level
10. Incentives for installation of equipment for utilisation of renewable source of energy
11. Incentives for installation of equipment towards captive power generation
12. Special incentives for automobile manufacturing industries
13. Entry tax exemption
14. Strengthening of the manufacturing industries in the state and to increase its percentage share of the GSDP
15. Subsidy for setting up Effluent Treatment plants
16. Incentive scheme for SSI units going in for BIS product certification or ISO series certification with enhanced financial allocation.

17. Patents registration subsidy
18. Interest free loan on VAT
19. Anchor unit subsidy
20. Special incentives for enterprises coming up in low HDI districts viz;
Bagalkot, Koppal, Bijapur, Chamrajnagar, Gulbarga and Raichur
21. Concession for rain water harvesting
22. Refund of cost incurred for preparation of project reports
23. Support to sugar sector

The industrial policies of India (1948, 1956, 1970, 1977, 1980, 1991) are broad based, especially the new industrial policy of India 1991 is a comprehensive one which covers areas like de-licensing, foreign direct investment and technology agreement, public sector policy, trade policy, tax and tariff policy .While the Karnataka government introduced various packages of incentives and concessions for the growth of industries and the main focus is backward area development. In these aspects the industrial policies of Karnataka differ from industrial policies of India.

3.17 Sum Up

This chapter focused on the comparative analysis of the industrial policies of India and Karnataka to recognise the pros and cons of instruments which had played a vital role for the success of every industrial policy.

The industrial policies before liberalisation period (IPR 1948, 1956, 1970) have strictly enforced to control of MRTP companies and foreign direct investment. This became the major stumbling block for the industrial growth. This compelled the economy to announce the industrial policy of 1980.

The industrial policy of 1980 along with realistic objectives introduced many measures to bring out transparency in the industrial sector from the growth perspective. However, the industrial policy of 1991 was a comprehensive one in the industrial scenario. The policy had introduced sweeping changes in the industrial sector, provided special identity to small scale sector through the implementation of small scale industrial policy in August 1991.

It is to be noted that Karnataka was the first state to bring out its own industrial policy during 1982-83. The industrial policies of 1990-95, 1993-98, 1996-2001, 2001-2006, 2006-11 and 2009-14 have divided the state into different zones and the areas under each zone differ from each policy. By introducing several incentives, subsidies and concessions these policies enunciated the growth of industrial sector in Karnataka.