INCORPORATING THE INFORMAL SECTOR INTO PLANNED DEVELOPMENT:
SOME NEW INTERVENTIONS

8.1 INTRODUCTION:

On the basis of our study of financial institutions and their role in developing industries in backward areas we can formulate new methods of intervention wherein these institutions can service credit facilities to the unorganised or informal sector. There are several common features between industries in the backward and the informal sector, except for the major distinction that units in backward areas get specific government attention. This chapter in its first section concentrates on the current available literature on the informal sector, enunciates a theoretical model which explicitly incorporates the informal sector into the general economic structure and while pointing out the advantages of this new approach makes recommendations and suggestions for further empirical work. In the Second section, the impact of new economic reforms is discussed and an active role for voluntary organisations is envisaged to help to mobilise the informal sector.
8.2 THE INFORMAL SECTOR:

This sector is defined in several ways depending on whether the chief parameter used is investment pattern, employment, whether the unit is registered or not, absence or otherwise of documentation, a different pattern of credit flow from that of the modern organised sector and lack of Government attention. Though this sector is apparently outside the main stream of economic activity it plays an important role by generating large quantum of employment, possessing even greater potential for employment and ancillarisation and in general oiling the wheels of the modern organised sector, though it is not done in a thorough, integrated and acceptable manner.

Shri V.D. Lall \(^{(1)}\) presents the following findings based on an exploratory study of 1180 economic units in the informal sector, firstly, informal sector is one whose developmental needs, including infrastructure, finance etc. are not specifically taken into account by the government in the preparation of regional development and investment Plans. Hence they spring up in the vicinity of organised large
scale industries, serve them as non-registered units and are confined to activities dealing with construction, garments, metal works, rubber, leather, plastic, electrical, engineering products and pottery and ceramics as well as wholesale and retail trade. Secondly, these units encourage self-employment and generate employment up to about 8 jobs per unit which involves family members who constitute about 6 percent of this labour force, regular or casual, skilled or unskilled. Wage rate differentials are up to 133 percent. Thirdly, local entrepreneurship, raw materials and market for the products play a large role with backward and forward linkages being minimal with the formal sector. Fourthly, all investments be it machinery or working capital is usually undertaken by the entrepreneur himself with the help of friends and relatives and only 0.30 percent of the funds is mobilised from commercial banks some times as a personal loan. In spite of all the constraints of finance and infrastructure such as poor sewerage, sanitation and water supply facilities, the rate of return of investment was found to be about 17.8 percent. Thus, the informal sector is an important segment of the economy and has begun to be recognised explicitly.
Ever since Keith Hart in 1973 (2) referred to the informal sector, further studies crystallised the features of this sector to be, ease of entry, reliance on indigenous resources, family ownership, small-scale, labour intensive and adaptive technologies, unskilled labour as well as unregulated and competitive markets. There is also a dualism in the informal sector where the role of informal sector is associated with traditional skills and crafts operating in cottage and village industries and service sector activities such as rural product processing, horticulture, forest minerals and fulfilling basic needs of rural population, trade and commerce and rural infrastructural facilities. The urban informal sector however has emerged due to the nexus of sub-contracting, ancillarisation and recycling of waste products as well as service industries such as repairing and maintenance of equipments, vehicles, personal service etc.

That the informal sector is prominent, we can see from the census of 1961 when 92.3 percent of the labour force was employed. By 1971 the percentage was 91.10. According to the 1981 census the economically active population of the country was around 250 million out of which formal sector employment was 22.91 million (9.26%) and the remaining labour
force of 224.59 million representing 90.74 percent was absorbed in informal sector activities. The contribution of informal sector to national income in 1960-61 was 73.4 percent and 66.1 percent in 1979-80. (3)

As against this, the village and small scale industries sector operating in rural and urban areas accounts for 36 percent of total national product, 48 percent of total value of exports and employment of about 35 million as against 25 million persons employed in the organised sector. Hence, a concrete effort to evolve a model which would help incorporate the informal sector into planned economic development is important to grapple with the socio-economic dualism. Further, since this sector is not passive but plays a dynamic role, new interventions would be necessary to harness the economic potential which seems to be a permanent part of our economy.

Since the economy is basically interlinked, positive interventions in the formal sector in the form of the current new wave deregulatory policies will affect the informal sector when seen in terms of manufacture of products and the marketing thereof. However, where credit supply is considered specifically, the very nature and structure of the informal sector would prevent smooth flow of credit despite the productivity of this sector being very high.
While many would tap the employment generation aspect of this sector we intend to concentrate on the market efficiency of the production side so that concerted efforts to increase production of goods and services produced in this sector would in its turn increase demand for labour indirectly. Activity in this sector could be increased by improving the supply of credit which would improve their access to raw materials and infrastructural facilities. Drawing some lessons from the efficacy of financial institutions in providing services to units in backward areas we devise some theoretical models which outline methods for improving the delivery system of finance from financial institutions to the unorganised sector by helping them organise into cooperatives along the Japanese experience.

From the analysis of the lending pattern of financial Institution it has been found, that their credit supply flows to the developed areas of backward States and backward areas of developed States thus ensuring the general conditions for viability of units in the long run. The informal sector because of its entrepreneurial talent, assured market due to type of product, reasonable pricing pattern, exhibits high productivity and is therefore viable both in the short and long run.
Secondly the type of industries favoured by such financial institutions are consumer goods and intermediates, with only meagre attention to capital goods, specially glass, rubber, textiles, chemicals etc. Informal sector also flourishes in these industries and can therefore claim to have a product cycle and technology cycle which parallels the organised sector.

8.3 The Model:

The entire economy when viewed as a structure could be depicted as a cube which is a three dimensional view of structural inter-dependence between various sectors. A very simplistic approach to viewing the links between the informal sector and the rest of the economy can be seen in the following figure I:

Fig. I
The informal sector can be seen as a hyper plane which goes through the entire economy highlighting the fact that every transaction in the organised sector has some direct or indirect linkage to the informal sector. The six faces of this cube would be the organised sector, informal sector, the information structure, geographic structure, the exchange basket of the informal sector the organised sector exchange basket which identify the possible links that can be strengthened in order to incorporate the informal sector into planned economic development. It should be mentioned here that the rural urban nexus has been specifically kept implicit in order to derive specific versions of the model which should be suited to both the types of economic activity.

Commercialism is a strong motivation that lies behind the success of the informal sector. This sector has so spread its tentacles and permeated the whole structure in an intrinsic manner that it is very difficult to isolate the tangible portions of the unorganised sector. In the context of the Indian economy it is necessary to identify
and give this structure its due importance so as to facilitate the general operations of the economy. This figure represents the existing situation where there is mutual interaction between various economic sectors in a timespace continuum through the medium of information. The equilibrium condition would exist when the hyper plane which is resultant of the interactive forces between the other sectors and this sector coincides with the diagonal of the cube.

However many a time the information matrix is not efficient and disequilibrium can enter into the model due to a number of factors. Poor literacy, inadequate access to information media, vested interests, can distort the dissemination of vital information. They would lead to lags in communication and the production and distribution process in the economy would suffer damage. In this model we represent in the following figure II a situation where information is inadequate:

![Diagram](image-url)
The shaded portion IVP represents weak links of information between the sectors which would when completed yield a proper model of economic equilibrium. However because of a small gap in information, the gaps in economic activity are more than proportionate as seen by the dead loss shown in the crisscrossed area QVI. This is because the actual equilibrium as seen by AV in the model is below what the optimal equilibrium is as seen by the diagonal AP.

As against the urge to meet basic needs commercialism is also a tool which helps to fashion activities in the informal sector where the profit motivation reigns supreme. What however highlights the activities here would be the complete and total participation of the units to achieve economic feasibility and success without any formal institutional or government aid. If such a sector is encouraged through the socio political and economic systems then it will definitely ensure further success. The informal sector where the private individual is the chief motivator has several types of delivery systems of goods and services which continue day after day depending on the strength of the linkages in the delivery chain.
Thus the informal sector market ethos with self-interest as the base has led to the production of consumer items and a commodity buyer's pull with service orientation. However, the quality of products and services is questionable since general scarcity in the economy prevents the consumer from exercising his real choice. The consumer is not the king but the supplier in the informal sector would hold sway.

So far, the Governmental sector from the revenue maximisation aim has been interested only in the organised sector. It is only in the 92-93 Union Budget that the impact of the Chelliah Committee's recommendations have led to the new presumptive taxes so as to encompass a large section of this sector. The government however, has not attempted to fortify the informal sector. Since this sector has proved to be fruitful in generating employment, meeting the basic needs and providing basic services institutional arrangements must be made to provide assistance if we are really interested in an economy where people matter as this sector is a major part of the economy. Governmental intervention would then not be in the form of doles but in the form of complementary aids which prompt the building of human capital. Such programmes would trickle to and strengthen the various links in the informal sector so as to rope in adequate community participation.
It is obvious that the ethos generated in the informal sector has a strong base where community participation plays a role as seen in the very survival of this sector without involving itself in a formal socio-political process. The momentum in this sector therefore will lead to further levels of economic improvement if set against the backdrop of backward areas.

The following figure III represents in a two-dimensional manner the backward and developed areas of the organised sector along with the informal sector. This view emphasises the fact that if the informal sector is given an impetus it helps to strengthen economic activity in both backward and developed areas so that the quantum of goods and services increases and base of the economy becomes broader.

Fig. III
Where as in figure III the entire structure is maintained and the informal sector is just strengthened in the manner as it currently exists by fortifying AB to BC, an alternative model exists where there is a shift in the thrust in the informal sector, by including new types of activities. In such a case, the developmental effects are more favourable to the backward areas and do not in any way adversely affect: the developed area activities as seen in figure IV, but strengthen them further.
The informal economy currently operates as a system where demand and supply of goods are within a narrow scheme of reference. Widening the economy therefore would provide more scope for better resource allocation, and production and consumption of a larger basket of goods leading to higher levels of welfare. However it must be accepted that the strength and spread of the Informal sector is closely linked to various socio-cultural aspects of the groups involved. An ideal situation would be to obtain detailed data base of research models on such aspects so that bold moves can be made to incorporate such isolated sections into the general economic system.

Before delineating some of the interventions which can help project the informal sector boldly some methodological problems may be listed. Accepting that the general criteria of self interest prompts a unit in the informal sector to set up productive enterprises, it is this very motive which may prevent the individual from linking to others voluntarily unless propelled to do so.
in the ordinary course of business. Human relationships are of voluntary and impersonal kind and methodological problems in behaviour studies would have to be resolved before suggesting intervention. An example would be two competing hawkers on the same pavement, whether their wares are different or similar, a certain aggressiveness in approach is required since they have to compete for the same resources from the buyer.

This can be extended to larger and more complex situations and it is not easy to recognise, measure or analyse the diverse problems of approach that are invisible in this sector. Further there is no personal homogeneity and individuals behave inconsistently when approached singly as against when functioning in a group. It is therefore, difficult to set up strategies which would help maximise individual freedom in a cooperative venture of such units.

We have conceptualised the informal sector as an interactive multi-dimensional hyperplane, in order to visualise the points of strength which need to be pursued further. This would help us adapt new modes so that the traditional operations can be influenced by exposure to the general working of the economy. It is here that it is
profitable to differentiate between the informal sector rural and informal sector urban. The rural folk have been now castigated continuously with a list of negative characteristic of resistance to change, lack of cooperation, laziness and apathy while concentrating only on the proceeds from agriculture. The question remains as to whether the process of assessment has been satisfactory and whether we have focussed wrongly and not been able to identify contributions of the informal sector in the rural area. Since we have identified self-interest as a motive behind success of the informal sector various processess would have been adopted surely though imperceptibly. As regards urban informal sector the aim would be to identify the links between urbanised sector and the government and examine the strengths and weakness in a functional manner as also identify linkages which exist in the system. From the preceding study which examines the role of financial instituions in the industrial development of backward areas, it is observed from the comparative study of the sample that units in the backward areas have a better performance index aggregatively than in the developed area.

We may draw here similarities between the features of the
informal sector and the features of the backward area, where both are characterised by lack of professionalism as well as poor access to infrastructure facilities, raw materials and credit. Only asset here would lie in the fact that a unit in the backward area is proffered patronage by the government which by very definition the informal sector would not be getting.

Another simile that could be useful in understanding the role of the informal sector is that it faces all the problems that an under-privileged section like women for example would face for having been by-passed by the process of economic development.

The following figure V projects the scenario in the form of two circles. Circle 'A' represents the entire economy a part of which is organised as seen in circle 'B' which is bounded by two langes wherein the government plays an active role.

![Fig V]
Thus the links between the Government is only indirect, as seen in C and C', and not direct and active as is desirable from a mutually beneficial point of view. The Government would receive revenue and the informal sector in turn would have the right and access to facilities that a government extends in terms of infrastructural facilities, specially credit. It is necessary to highlight here that since informal sector is already functioning it is obviously making use of transport and communication network albeit in an inefficient manner with inadequate access. Organisation of some form is required specifically for the supply of credit which currently is being made available in devious ways through money lenders who would be charging very high rates to compensate for the insecurities involved in lack of formal organisation. We thus recommend strongly that these units be organised into a cooperative system of one form or the another so that they can come together for various purposes such as common management and sharing of plant and marketing facilities. The Government could then link up by encouraging such motivation
through financing assistance and tax incentives. Over a period such cooperatives could get organised into large corporations representing various facets of industry. It is then that the Governmental policy on industry would have some influence in shaping the demand and supply of products from these sectors. Trends in consumer demand, technological innovation, cooperation of specific industries, smooth response to changes and globalisation would be other consequences of formalisation of the unorganised sector. Thus development of advanced technology would be promoted more easily than when the units are miniscule and positive adjustment policy could be expected of such cooperative institutions so that production capacities and supplies would adjust to global demands and international specialisation.

The above suggestion would not have been meaningful in an era where the Government had already a major stake in the form of massive controls in the industrial sector. With the wave of liberalisation and the new economic order the role of the Government has been identified to be of a 'market friendly' variety which will help to determine its overall industrial Policy. In the context of
the informal sector the Government would then take steps to steer it towards achieving rapid economic growth by functioning as an information clearing house and supplying data regarding domestic demand. The current relaxation of the government's regulations would help the informal sector project itself in a more effective and efficient manner and the government could aid by upgrading the infrastructure, supporting R & D activities and promoting the sector into new areas of operation.

Currently despite its huge contribution, and high productivity, informal sector has not succeeded in meeting the domestic demand completely even in basic necessities. The current double digit inflationary trend also points to the high cost of production, of trade and services even in the informal sector. Attempts must therefore be made to cut costs and shift to high value added products, so that domestic demand is met satisfactorily. Large scale production and supply of basic necessities would also contain inflation. This is specially so if the organised sector should continue with its interest and thrust in the export arena.
In what follows we try to identify with the help of the model already enunciated the problems that may prevent the informal sector from shaping itself into cooperatives and suggest new interventions to aid the process, before which an algebraic version of the model is delineated.

8.4 **Algebraic Representation**:

We present an inter-dependent model which grapples with the realities of linkages between the formal and informal sectors through a process analysis approach, where every commodity is specified by the process which is used to produce it. The Input Output methodology can then be applied to resolve the model empirically (4).

The informal sector model can be algebraically denoted as a system $Y = f\left[US(I-A)X\right]$ where $U$ is a matrix of the unorganised sector and $S$ a vector of linkages, $(I-A)$ is the technology matrix and $X$ is the output vector in the organised sector. Given the level of output the informal sector would produce and distribute it along with the organised sector through the various links in the technological and marketing nexus. With the free market forces of demand and supply in operation the
self-correcting signals are transmitted and strengthen the informal sector and send the waves to the organised sector through $S$, which if it is in a backward area will also help in removing regional disparities. Two factors must be noted here: no model of informal sector can be planned or started on a clean slate since the present structure has to be taken as the given starting point. Further, we need an adequate data base which is what is found to be lacking except for a few micro studies.

In order to articulate the model empirically, extensive surveys would be required on $U$ and $S$, the informal sector as well as the linkages. This in consonance with the local productive factor endowments, the technology available and the demographic structure will dictate the size and intensity of augmentation of the informal sector.

The informal sector can then be viewed as one conglomerate process and the vector added, on to the matrices. Alternatively another matrix can be constructed for the informal sector. Because of data availability and the very definition of informal sector wherein official documentation does not exist, to construct the matrices would be a difficult long drawn process. Several empirical exercises can be performed with the help of this model.
1) If the entire basket of goods were to be produced of the formal sector in the informal sector the effect on income and employment could be calculated.

2) Alternatively if the entire output currently produced in the informal sector could be produced in the formal an idea is obtained of the level of investment that would be required to produce the final bill of goods.

3) If the informal sector is seen as a matrix then the indirect effects would give us the extent of linkages with the formal sector and help identify those industries which should be given more attention so as to enable development in the backward areas.

Thus this is a comprehensive model of production equilibrium and growth where the formal and informal sectors' interdependence is grappled in a logical and consistent manner and the model yields to empirical operations.

8.5 The Model In Operation:

A free market mechanism will stimulate entrepreneurship, liberate the powers to expand and diversify
and unleash a wave of savings, investment and economic growth. Strengthening the informal sector will give greater benefits and resolve the problem of regional disparities more speedily and precisely rather than hoping for a trickle down from developed areas. Because of the multidimensional representation as seen in the matrix of inter-dependence between backward and developed areas which exchange goods and services, the informal sector is permeating and represents a dynamic focus. Strengthening the informal sector would imply developing the growth through linkages and making that as the focus and base. The entire economic expansion can be seen as spectacular growth in terms of income, employment as well as development of backward areas in a structural manner.

The informal sector is generally identified as having a rural and urban counterpart and it is family dominated in the former sector. In the latter the industrial units are not registered under the Factories Act, are not identified as units in the small sector, do not submit annual returns or information, and the workers do not get any of the benefits such as provident fund, gratuity or insurance schemes. In such a set up it is difficult to
obtain data for meaningful empirical analysis except through the medium of field surveys which will only reveal the micro aspects of locational specifics of the informal sector. This model draws from the micro studies certain basic intrinsic features and uses them as building blocks to correspond to reality. The size of the informal sector is substantial and the employment generated is huge. The enterprises are located on owned rather than rented premises sometimes in the dwelling places of the entrepreneurs. It is these aspects governing convenience that lead to lower costs and production. However standards of quality are often jeopardised. Thus the enterprises often produce internally; non-differentiated goods and though the market may be large it is irregular and local. All types of goods such as consumer perishables, consumer durable intermediate and ancillary goods are produced in the informal sector, though they may not be branded products or possess registered trademark. It is found that the informal sector needs very low amount of capital and there is no problem regarding supply of inputs nor are there legal or institutional barriers to entry. The finance required by these enterprises is obtained from
indigenous sources. In the Indian context though the sector does not cater to the international market the market is found quite often limited and local.

The prices in the informal sector are generally low as compared to that prevailing in the regular market. The large number of competitors in the informal sector within a limited spatial area has led to concentration and competition in the market forces helping to determine the price. Since this sector already follows the basic rules wherein the market forces have a free play, the current liberalisation wave is exactly suited to the better functioning of this sector. A capitalised mode of production the predominant and intensive use of machinery as well as local funds are predominant features.
The above figure VI presents a macro view.

The two concentric circles represent areas where the informal sector and formal sectors have interaction at all points of resources, technology, marketing etc. which would ensure expansion of all activities where Governmental intervention is the least. On the contrary the circles centred G, O, and U represent the Governmental operations which cover the entire organised sector O and are only indirectly affecting the unorganised sector U. The latticed portion shows the interaction between the two sections of economic activity.

A shift from the balanced growth pattern by giving special attention to the informal sector will further economic growth, urbanization and economies of scale. An effective regional policy can be formulated for a large country like India only on the basis of sectoral details regarding activity clusters and strong complementary linkages. The special framework within which policies will be implemented affects the effectiveness depending on the institutional and economic circumstances. However basic
measures to improve human capital, factor mobility and activate the government's role in providing infrastructure will have a beneficial effect on the entire economy. Moreover multiple objectives and limits to their attainment because of resource scarcities influence the choice among development strategies with the ultimate decision left to political will.

However a clear idea of the socio-economic system, the industrial and demographic structure and the policy instruments available on hand in order to formulate plans, priorities, resources allocation and institutional arrangements is required. Multi disciplinary approach would also be required since decisions would have to be taken, regarding places prosperity, vis-a-vis, 'people prosperity' criteria (5) whether assistance should be a charity or investment, whether investment in growth centres or dispersed manner and whether to support the dualistic regional structures or to correct the industrial mix, the techno material and the psycho-social infra-structure.

Drawing lessons from the polarization theory, we can say that selective concentration of economic activities in the informal sector of a region will carry more growth potential on a dispersed pattern in an efficient and
effective manner. Since the productivity structure is already implicitly inbuilt in the system, reinforcing and directing the focus towards that centre will aid in the socio-economic development, generate employment and income and reduce intra-regional differences through growth and organisational changes.

Different combinations of policies would have to be used for the informal sectors in different regions depending on whether it is rural or urban and the type of settlements, their organisational relationship and the growth generating activities in the informal sector. The difference between the growth pole or growth centre in regional developments and using the informal sector as a source of concentrated attention is that the informal sector permeates in a lateral manner the entire system and the structural inter-dependence has growth-inducing impact through a system of linkages. Such a system of inter-industry linkages is horizontal and therefore faster than other processes of growth generation because it expands income and output in the regional economy in an overall manner through income and employment multipliers, through the units in the urban and regional setting. The following figure VII depicts horizontal process
of growth to reduce regional disparities. The informal enterprises are found to operate on a very low margin and the income generated is also very low. If the performance of the enterprises are measured in terms of liquidity and stability it would give a very poor picture. However the informal industries project better performance in terms of income generated than small scale enterprises in the formal sector, since they cater to wider markets. It is also observed that the units in the informal sector are relatively liquid on an average with some having excess liquidity and others being deficient. They are thus unable to stick to the principles of sound financial management. The efficiency of the enterprises is suitable because of the ownership structure, the market structure and the capital intensive mode of production. The main reason for the success of the informal sector is the high degree of motivation and a business instinct along with basic entrepreneurial talent. Since the enterprise is family owned maximisation of family income through reaching wider markets is the main strategy. The only way in which competition from the formal sector is faced is in terms of prices. Within the informal sector the high degree of competition leads to
price determination through market forces. A wider market implies arrangements with intermediates with whom permanent relationships are established by offering credit facilities on an attractive basis. With an increase of volume of production more working capital is required and a scheme of commodity credit is set up between the inter-related parties so that dependence on external finance is reduced.
The above figure VII is relevant in the current ethos of liberalisation where institutional finance will have to augment the sources of indigenous finance through various fortifying processes that we shall be discussing so as to expand the activities of the informal sector and consequently of the entire economy.

The informal sector in an urban economy provides a major part of goods and services and employment to the local labour. With the accelerated growth of the formal sector due to the liberalisation process, similar impact would be felt on the informal sector. Since the activities of the informal sector are vertically linked through market and technology, expansion of this sector would lead to extension of the formal sector. Hence as a reverse process emphasising independent growth of the informal sector through these very linkages would further help to develop backward areas in the formal sector. The co-existence of backward and developed areas has been attempted to be altered through various development strategies which aim at removing dichotomous nature by strengthening the linkages through adequate financial support. The model in this study proposes a strategy through strengthening of economic and technological linkages which will lead to higher income and employment through the interaction of marketing and type of final bill of goods produced.

So far only micro level case studies and major studies in different countries have been taken up to study the characteristics of the informal sector. These emphasise the
structural aspects of the labour market, the socio-economic conditions and the formal-informal sector relationships. This study departs by taking up a macro perspective and uses productivity, economies of scale and technological linkages to allay regional disparities of growth.

8.6 Capital Requirements and Entrepreneurship in the informal sector

The nature of capital requirements for the various units in this sector vary with fixed capital being more than working capital in some cases and vice-versa. While the fixed capital for trade and manufacturing is more or less the same for both the sectors, formal and informal, it is less than that of services and hotels. The average working capital for all segments is around Rs. 35,000/- each (5). Loans and advances help to finance their activity both for fixed and working capital requirements. On an average each unit in the sample study for the unorganised sector in Delhi had a debt burden of about Rs. 15,000/- it being significantly higher for hotels. Commercial banks and money lenders are the principal sources of finance with the loans ranging from Rs. 1,000/- to Rs. 1 Lakh through commercial banks. While money lenders were the next source of funds,
cooperative banks played a major role in providing loans to these units. The manufacturing segment in the informal sector is more labour-intensive compared to other segments and creates one job for an average investment of Rs. 11,000/-. The competition among the units is severe because of ease of entry and absence of any regulation. Mass production would be a good intervention specially if mass marketing exists through an extensive distributive network.

The mode of payment at the time of purchase and sale of goods and services is usually through cash and since some entrepreneurs also enjoy credit facilities and get cash for sale, the liquidity cushion in this sector is very high.

Entrepreneurship in the informal sector can be enjoyed by establishing industrial estates and disseminating information on prospects and problems in different informal sector activities, providing a package of support services such as materials, finance, marketing. In this sector, there is a free mobility between jobs, and an employee can became an employer, and even without formal training take up entrepreneurship. The advantages in the unorganised sector should be organised and systematised so as to yield better
results thus imparting systematic training to entrepreneurs through adult education, entrepreneurial development programmes for knowledge and skills towards better resource management.

The suggestions to help enterprises relate to providing accommodation to establish shops and establishments so as to encourage commercial and industrial activity. Establishment of technological linkages which could result in import substitution along with proper credit and marketing support would help encouraging marketing sectors at different places specially where enterprises in the same line of activity are concentrated such as jewellers, textile units etc. Forward linkages must be intensified between urban sub-sectors through credit, communication, technical and managerial skills, infrastructure and public policies.
8.7 **New Interventions to Improve Efficiency of the Informal Sector.**

1. Products selection so as to favour production of local goods consumed by the lower income groups.
2. Use of labour intensive techniques and a mixed mode of production.
3. Have design centres which will chart out new technology programmes and central R and D facilities.
4. Strengthen the horizontal coordination of industrial planning at different levels through sub-contracting and developing interlinks with industrial and economic corporations.
5. Encourage informal sector by permitting any entrepreneur who is capable to take up projects as long as he can manage a location for it, without going against civic rules.
6. To set up social organisations and funds for the health and safety of labour in the informal sector.
7. Design such new products which are suitable for production in the informal sector.
8. Government and large firms be encouraged to subcontract to the informal sector.

9. Provide training for unemployed youths in skills and trades and basic facilities such as land, power, water, work sheds, etc. Government can help through forging new links and strengthening existing ones between formal and informal sectors, offer technical assistance and provide public services like health, education, housing.

10. Since labour is migrant and unorganised and often unskilled they are employed on daily wages and no long term benefits are extended. In order to improve the lot of the workers the Government can take steps towards improving wages, working conditions, welfare, etc. However such efforts should not lead to consequences which deprive them of even the subsistence wages. Security of employment, provisions for regulating hours of work, overtime wages should also be extended to this sector as well as benefits such as Provident Fund, Health and Educational facilities. The Government should take
up these issues of social security without insisting on contribution from employers. Some preferential treatment in terms of housing facilities, and dissemination of information regarding job opportunities may be helpful.

11. Dependence on indigenous sources of borrowing should be replaced by institutional sources to meet credit requirements so as to wean them away from the clutches of moneylenders and the organisation should be based on cooperative principles with government support.

12. Banks would have to change their norms and prerequisites if they have to finance the informal sector and provide for concessional lending rules. Since finance is a critical constraint the current schemes by the government of India and the Reserve Bank to replace security oriented lending by purpose oriented lending are helpful since the skills, expertise and knowhow of the borrower forms the basis of loans sanctioned. Yet the apathy and ignorance of bank officials prevent various schemes meant for the small sector from being fully utilised. Similarly, most of the entrepreneurs and borrowers are also not aware of
the various credit schemes. It has been found that the problem of finance is not so much non-availability or lack of access but of attitude on the part of the lenders and the borrowers.

13. Assure access to credit facilities on reasonable terms by rediscounting commercial bank loans, giving government guarantee to cover additional risk in informal sector loans.

14. Design new and specialised institutions to finance informal sector.

15. Devise alternative means to secure collateral and simplify procedures of sanctioning and disbursing loans.

16. Assessing the contribution of informal sector accurately through proper collection of data will help to forge schemes for employment. Impact of welfare programmes on the weaker sections, the cost of employment generation, capital-labour-output ratio, surveys regarding domestic servants, employed women, casual labour, hawkers and Peddlars, migration between formal and informal sector of labour and changes in income pattern are other areas of study.
17. Socio economic data regarding the informal sector must be collected on a continuous basis. It is not necessary that the informal sector be formalised in order to gain access to better working conditions and business environment. What is necessary is to strengthen these features of the informal sector which have enabled it to sprout, survive and flourish so that regional disparities can be removed through the nurture of this sector.

18. Currently almost all the government attention to small scale units in terms of facilities for selection of projects providing a work place procuring machinery, raw material, knowhow, help in marketing, technical guidance for quality standards, export promotion, training of workers, establishing, sub-contracting and financing the units are only available to registered units. The unregistered sector does not get the benefit of these facilities. Instead of registration becoming a prior condition for help it should only be a formal requirement from the point of view of maintaining statistics, specially now that a liberalised ethos prevails even for the formal sector.
8.8 Conclusion:

The informal sector in the entire economy will thus form a focus for growth by generating and transmitting innovations. This will be different from the Growth Pole Model, where isolated enclaves result in poor spread of socio-economic growth. Moreover, the current theories be they on balanced growth or otherwise do not offer policy guidance with respect to identification of potential growth centres. It is the linkages in the informal sector which will be the transfer points of growth both in an integrative and generative manner pervasively through the micro and macro regions and channels.

The financial institutions wanting to fulfill their development role must therefore attempt to forge new and powerful linkages which facilitate the setting up of multi-level channels and help to reinforce the growth processes specially in the backward areas. The informal sector provides numerous opportunities for entrepreneurship and if possible risk and uncertainties of the market are minimised by suitable government promotional measures then growth points will emerge in this sector with propulsive effects, with a rate of self generating and making the entire economy intrinsically growth oriented.
Access planning and integrated regional development depends on the type of activities that are planned and the locational aspect influences the fact whether backward area potential will fructify.

The informal sector being a seedbed of entrepreneurship where the process of innovation and growth is maximum, optimising productive factors or production the spread effect of assistance or agglomeration will bring about economies of scale in a more rapid manner than if the balanced growth strategy is directly implemented. Indeed this process of growth through the informal sector features concentration on outward-propagation of growth. Further, such a strategy facilitates migration from backward rural areas and small towns within the commuting range into the local informal sector because adequate infrastructure, external economies and public services are easily available.

Forward linkage effects and external effects will generate economic growth on a sustainable basis, if the government concentrates public investment in this area so as to facilitate productive implementation. The informal growth
strategy comprehends a variety of measures regarding location of economic activities, construction of physical facilities and social development programmes so that a vital net of linkages is woven between this sector in the rural areas and the productive activities in the rest of the region slowly spreading in a whirlpool manner to the rest of the economy.

SECTION 7
IMPACT OF NEW ECONOMIC REFORMS ON REGIONAL DISPARITIES.

8.9 INTRODUCTION

Hitherto the steps to remove regional disparities have concentrated either on the bottom-up or the trickle down process. The model delineated in the previous section provides a horizontal approach to removing regional inequalities in development, strengthening the informal sector by forging the links towards greater ancilliarisation. This is the best strategy to accelerate growth. The new wave of liberalisation in India has lead to economic reforms on the trade and industry fronts as well as the financial and fiscal sector so that entrepreneurship will get a free play. The role of the State gets re-defined
in a market friendly system as described by the World Bank Report 1991. (6)

In what follows the economic reforms (see appendices to this chapter for details) will be discussed from the point of view of how they will play a catalytic role towards integrating the informal sector into planned economic development.

8.10 THE BACKDROP:

The concept of a mixed economy as defined in the fifties has been thoroughly overhauled with the new industrial reforms since 1991. The 1956 industrial policy resolution had divided industries into three categories, 1) of basic and strategic importance which required investment on a large scale reserved only for the public sector, 2) list of industries which would be progressively state owned along with supplemental effort by the private sector and the 3) list of industries left entirely to the initiative of the private sector. The current reforms have reserved only eight industries in the first category, eighteen industries have been listed out for compulsory industrial licensing and the rest have been left
to private sector without any regulatory requirements.\(^{(7)}\)

This in itself will serve to strengthen all forms of industrial activities in the formal sector directly and have favourable indirect effects on informal sector, leading to allround gain in productivity, production, income and employment.

Through persistent pressures within the country it was realised that excessive regulations prevented competition and did not enable the economy to reach levels of excellence. Heavy budgetary deficits, balance of payments difficulties and low production and productivity within the country with double digit inflation have led to opening up the economy. Foreign equity participation is automatically allowed if taken up in the list of industries which are specified in the policy, special incentives are given to Non Resident Indians, and export thrust for growth has replaced import-substitution as a policy. Continuous attempts are being made to curb budgetary deficits by cutting down non-plan expenditure.
8.11 Transformation in the Concept of Economic Development:

Economics as a science has undergone a great deal of transformation since its inception more than two centuries ago and the concept of economic development which is more recent also has changed in its shades of connotation and emphasis. For example, faster rate of economic growth was correlated merely with increase in national income. It then changed to rates of capital formation and when it was found that such development leads to unbalanced growth of various regions with poverty pockets which are more often than not by-passed, economic development began to mean growth with a "human face". Again the models for achieving such growth changed from the extreme welfare state situation where the Government launched a socialistic pattern of planning with a major role to the state to the current fashion of 'Market - friendly Approach' to development as enunciated by the World Bank. Providing basic necessities for people, caring for the social indicators such as health, literacy, human resource development and quality of life are now becoming important to development theorists. Thus even the approach to growth
has changed from the trickle-down process to the bottom-up, from the centralised process to a decentralised one and from state distribution to access planning and participatory approach. Economic development is now seen as a horizontal process which involves social experimentation and formulation of economic policy in keeping with changes in the general ethos.

Against the backdrop of the exponential rate of global changes the recent Indian liberalisation wave would seem miniscule. However in the country's own context of four decades of restrictive regimes involving multiplicity of rules, regulations, schedules, quotas, licences and reservations, this breath of fresh air in the form of the new industrial Policy has resuscitated the economy and entrepreneurship. In what follows we review the opportunities and challenges that now face Industry and the economy and suggest further remedial measures for recuperation.

Liberalisation is not a piecemeal process. It involves an entire gamut of measures which spell the role of government intervention in a "market-friendly" manner to
promote a climate for free enterprise, leading to integration with the global economy. Thus while government intervention is essential for development it should be operated in an open and direct manner, simply and transparently such as preferring tariffs to quantitative controls which would bring in certain rules into operations and minimise the role of official discretion. Such interventions by the state must also submit to the discipline of the international and domestic markets so that they are operable only when market performance is seen to be failing. Hence governmental intervention would occur with a great degree of reluctance and in such areas where the private sector usually does not enter in a big way such as spending on basic education, infra-structure, poverty removal measures, population control and environmental protection. It is only then that interventions are likely to help the development process.

8.12 The Public Sector:

The strong industrial base of India though supported by the private sector has a public sector at its commanding heights. The investments in public sector enterprises have been heavy and return meagre with the attending evils of corruption, inefficiency, low productivity, high cost and poor management, and yet the public sector of India has some of the best technical and management talent in the country.
It must be pointed out that when we talk of the public sector we see only the tip of the iceberg as seen in public sector economy enterprises. A bigger part of the public sector in the overall context and in the wider sense includes administration and defence, cultural and civic amenities and agencies to promote economic development. The Bureau of Public Enterprises (BPE) in its survey is thus forced to leave out a major part of the public sector. "How large is the part of the public sector which is thus left out can be judged by the fact that the enterprises covered by the Survey of the BPE employ about 23 lacs persons i.e. only 23 percent of the total number of persons employed in all - non-departmental public sector enterprises."(8)

Whatever the measuring rod used to test the performance of the public sector, be it employment, output, income, savings, investment or capital stock the picture is not a rosy one. Apart from developing into a high wage island thus accentuating income inequalities and engendering low productivity, the public sector has become a seed bed for inefficiency and corruption. Hence privatisation has been mooted to tackle the problem by instilling efficiency.
8.13 OPPORTUNITIES:

The new economic reforms will help industrial development in the country and aid economic growth through a wider infusion of the spirit of competition. By opening up new investment opportunities through the release of sectors hitherto in the exclusive preserve of the state as well as by doing away with the need for licensing and registration procedures an impetus to general economic growth stemming from industrial investment is expected.

The entire attitude to foreign investment by opening the doors upto 51 percent equity in high priority industry and automatic approval for foreign technology agreements within parameters is the hallmark of an outward orientation to the country. Easier technology import will improve the quality of domestic industry and help to measure up to international competition which will accelerate with the automatic entry of foreign investment in 34 industries.

Opportunity for privatisation would not only include divestiture and denationalisation but franchise financing, closure of state owned enterprises, leasing of such enterprises to the private sector either for management or
contract leasing, employing private institutions for supplying various goods and services needed by the public sector but also any other measure of economic policy which involves curtailment of the role of the public sector by permitting the entry of the private sector in areas hitherto exclusively reserved for the state.

Even in those industries reserved for defence purposes, private initiative should be welcomed specially since technological developments in mining and manufacturing of defence related equipment have taken a quantum jump in recent years. Further, it would help instill greater efficiency and raise quality standards if the private sector is given a hand in these areas. What is more important, defence-related equipment when purchased from abroad are in fact obtained from private parties which would strengthen the argument that the private sector in India should be given equal status where these areas are concerned.

8.14 CHALLENGES:

Financial Institutions would face a challenge since financing a project in the competitive environment would be a much more difficult task specially when general infrastructural deficiencies persist.
The Narasimhan Committee (9) recommendation on financial system reforms are to be seen as a major step towards liberalisation. The phasing out of priority lending, and deregulation of interest rates will enable more funds to flow into the system as savings will get a market rate of return. This is good for the formal and informal sectors and specially so for the latter which is always in dire need for Credit. Reducing the statutory lending ratio and the Cash reserve ratio will also help in improving the liquidity of the system. However, the reforms have yet to be implemented though some steps have already been initiated in the 1992-93 union Budget proposals.

Similarly if Exist Policy is not spelt out quickly it may well be the undoing to the entire radical package. Since technology is a force that cannot be stemmed in, the modernisation impetus would call for a fundamental reorientation to retrenchment or deployment of labour. A look into Labour Laws would also therefore, be required. The attitude towards foreign capital is welcome but this should be supplemented with a proper attitude towards R & D within the country so that indigenous technology and improvements
thereof continue unabated. Even if not much fall-out is expected from the outward orientation in the form of increase in foreign investments, still a breaking-up of the "Insularity" syndrome is in itself an achievement, which will shape the course of future policy making.

In particular care should be exercised regarding the policy on the small-scale sector which is a very important aspect of our industrial growth, specially from the viewpoint of employment generation and dispersal of industries. The small, tiny and ancillary sectors should be encouraged as to form an integrated whole with forward and backward linkages as in Japan. The new thrust towards modernisation and exports in the small scale sector is welcome. Nevertheless it must be pointed out that there is an urgent need for reducing, through rationalisation, the long list of products reserved for the small-scale sector. Since sickness has been rampant in the small-scale sector, it is hoped that new relief measures will be formulated on an urgent basis. In this context it must be stressed that whatever incentives are provided for the new units in the small scale sector such as sales tax exemption and other measures must have a sense of temporal stability. This should be so specially in the backward areas otherwise we
often find that units are wound up once the incentives are stopped since they are not viable.

8.15 **Impact of Reforms on the Informal Sector:**

In order to take advantage of the liberal atmosphere for the entire economy, information on the informal sector is necessary as our knowledge is highly limited and impressionistic. Hence, to plan for the development of this sector calls for further details about its structure in terms of a strong data base. The current focus to suggest policies for mitigating the disadvantages of the informal sector in terms of poor access to resources of all kinds such as capital, finance, modern technology and skills would raise certain analytical questions. Some problems relate to whether the existing technology is appropriate or steps should be taken to change it. If radical change in technology is proposed, the primary advantage of this sector which is employment generation, equitable income distribution and low capital base would be wiped out. Secondly, the formal-informal sector distinction is basically drawn on the grounds of access to Government recognition and facilities such as resources controlled and distributed by the
Government, advantages of an organised capital market, bank finance, foreign technology, imported raw-materials etc. If it is taken to believe that the informal sector is able to flexibly operate because of the escape from hostile conditions caused by Governmental enforcements of regulations and bureaucratic procedures, then, formalising this sector would remove this basic feature without adding any advantages. Since there are problems in identifying this sector as a distinct analytical category, it is difficult to frame a model which can help in forging delivery systems to this sector to reach public services and support mechanisms. To formulate appropriate policies for technology is equally difficult since the question of employment generation also raises its head.

We, therefore, adopted an approach which begins by accepting the informal sector as a separate identity and tries to involve it into the process of an integrated development pattern which can utilise the potential linkages between the formal and informal sectors. Thus, here, informal sector is treated as an instrument of growth and the dichotomous model which has persisted due to the access problem is acknowledged as an existing fact. Since a sizeable segment of the informal sector is dependent on the
formal sector for marketing of product and acquisition of technology, inter-sectoral linkages in a liberal atmosphere will get further strengthened.

On the basis of several case studies, it has been found that the informal sector activities have shown better performance and continue to have a good potential for growth of income and employment because of linkages with the formal sector in terms of market and technology. Hence, their growth would be dependent on the growth of the formal sector and vice-versa. The informal sector can therefore serve as a major instrument of income and employment growth and equity. Since capital intensity is generally half of that in the formal sector and a turnover of one lakh generates employment for 1.5 workers in manufacturing 0.18 in trade and 0.25 workers in service (10), the main link between the formal sector and informal sector should be through technological integration.

8.16. Projecting Alternative Scenarios:

In economics it is very meaningful to think in terms of opportunity costs. Accordingly, in order to see the power of the informal sector one method would be to provide a
thumb-nail sketch of what would have happened if the total assistance disbursed by the financial institutions had been invested in the informal sector as has been suggested in this study.

Two alternative scenarios come to mind on the basis of the capital intensity and the employment generated as seen in the empirical studies on the informal sector. The first one deals with total assistance disbursed for the period 1970-71 to 1989-90 to the tune of Rs. 39559.66 crores and to the backward areas in particular approximating Rs. 17338.38 crores. Given the figures by Mr. Papola for the informal sector having a capital intensity of half that of the formal sector, Rs. 40,000/- crores investment would provide roughly Rs. 20,000/- crores of turnover given the XCOR as 4:1 for the organised sector. Similarly, employment generated by this investment would be 30 lakhs in the manufacturing sector, 4 lakhs in trade and 5 lakhs in services totalling about 40 lakhs of employment for the period of two decades.

The second scenario would be roughly the amounts as mentioned in the above picture with Rs. 10,000/- crores turnover and 20 lakhs employment in the backward areas.
only. What would however, have to be borne in mind is the fact that the assistance disbursed by financial institutions which has been treated as investment in this projection is phased over 20 years and would call for more complicated calculations which would have to consider a range of parameters not immediately visible. Further, the strengths of linkages between backward areas and the organised sector as well as developed areas and the organised sector is also a factor which would add to the indirect effects not mentioned here.

Awasthi's study which deals specifically with trends in regional industrial inequalities, emphasises the fact that industry has concentrated in a few regions and within regions in a few pockets. Awasthi points out that the industrialised states of India get ranked differently when the unorganised segment of the manufacturing sector is taken into consideration. In his words: "It is interesting to observe that ranking of the states in the unorganised segment of the manufacturing sector does not confirm to the rank order of the organised sector. Some of the industrially backward states such as Haryana, Rajasthan and Assam snatch
a higher order berth with second, third and fifth ranks according to their shares in value added in the unorganised manufacturing sector".  

On the basis of the rank correlation which was calculated between the organised and unorganised sectors, there is some room to believe that the unorganised sector is developing independently of the organised sector when the declining coefficient of co-relation is observed. However, the relationship between the large and the small scale organised sectors is significant and that between the organised small scale sector and unorganised sector has strengthened over time amounting to + 0.264 towards the end of the eighties.

On the basis of data obtained separately for the organised and unorganised sectors for parameters like value added, output, employment sectoral configuration's can be worked out which would be meaningful.

It is needless to stress that the developments of the past decade and the ethos of liberalisation will give greater momentum to the unorganised sector.
When seen in the context of the above scenarios, the macro economic theory of ameliorating regional disparities provided in this study gets strengthened further for every growth of one unit in the unorganised sector there would be substantial growth in the organised small scale which would have cascading effects on the organised large scale. Hence we can only reiterate here that the financial institutions must use this strength of linkages between the various segments in the economy in order to invest wisely and obtain a spread effect which is larger, more balanced which with greater momentum will accelerate overall development.

In table 8.1 we get an idea of the production structure as seen between the organised and unorganised sector and their contribution to value added over the eighties. In fishing, unregistered manufacturing, construction and transport by other means, the unorganised sector has shown spectacular performance where value added is concerned. This shows that whenever there is minimal scope for governmental intervention, the activities show better performance due to higher productivity by adopting most effective processes. Such information can be utilised to articulate our model empirically with fruitful results.
<table>
<thead>
<tr>
<th>Industry</th>
<th>Organized</th>
<th>Unorganised</th>
<th>(Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture, forestry, fishing</td>
<td>21212</td>
<td>19544</td>
<td>32182</td>
</tr>
<tr>
<td>2. Manufacturing</td>
<td>17019</td>
<td>21467</td>
<td>23415</td>
</tr>
<tr>
<td>3. Electric &amp; Water supply</td>
<td>1217</td>
<td>2300</td>
<td></td>
</tr>
<tr>
<td>4. Construction</td>
<td>2047</td>
<td>2945</td>
<td></td>
</tr>
<tr>
<td>5. Trade, hotels &amp; restaurants</td>
<td>1191</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>6. Transport, Storage &amp; comm.</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>7. Railways</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>8. Banking &amp; insurance</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>9. Real estate, ownership of</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>10. Community, social &amp; personal</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>11. Public administration &amp; defence</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>12. Other services</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
<tr>
<td>13. Net domestic product at factor cost (1 to 9)</td>
<td>1205</td>
<td>1801</td>
<td></td>
</tr>
</tbody>
</table>

8.17 RECOMMENDATIONS:

Firstly, adequate information about the structure and functioning of the unorganised sector is necessary since its multiple activities are spread over industrial and agricultural sectors as well as the rapidly growing services sector in recent times. Information is, therefore, required about the quantum and nature of goods and services as also the employment and self employment it provides.

The informal sector has certain parallel features with that of the backward area units, we have studied earlier. Primary lack of capital is a constraining factor which prevents units in the unorganised sector to extend in terms of size and profitability. The financial institutions and commercial banks do not extend support to units of this sector. Certain changes in lending procedures have to be initiated since there is no doubt about the absorptive capacity for funds in this sector. So also since productivity is very high and it permeates every segment of the economy the question of return would not be a major problem. What is, therefore, needed is greater access to capital for these enterprises.
In the rural areas the dual economic structure has lead to a major role for money lenders and private traders whose high rate of interest leads to a permanent feature of indebtedness. It is, therefore, a major recommendations of this study that access to credit facilities must be fostered in a conscious manner. Towards this end the formations of cooperatives will improve operational efficiency both in terms of organisations and spreading of economic development. Instead of middle-men, money lenders and petty traders exploiting the economic and socially weaker sections institutional arrangements for providing credit by the financial institutions would change the pattern of the informal sector's functioning radically. Adequate finance for productive purpose through the unified cooperative credit structure will aid in the balanced development of all areas. Based on a study by Dr. Mahalingam (12) it has been observed that cooperative credit institutions have succeeded in disbursing finance in backward areas specially rural areas. The innovation here would be that units in the informal sector would form cooperatives and be able to draw upon the assistance from the financial institutions in an organised manner. Such a joint effort would also resolve other problems of obtaining
raw materials marketing final products, getting a better price for them and in general engender confidence in the organised sector. The financial institutions would then serve their true role of being development banks by providing a package of integrated services to the informal sector.

Caution must be exercised in dealing with the concept of informal sector from a holdall point of view. Different aspects of this sector need different kinds of policies specific to the type of industry that is being discussed, for e.g. the construction industry would call for some legislation with respect to wages of the workers. However, the self-employed sector would call for assistance at the credit and financing, collateral provisions, etc. In general social security or welfare schemes, insurance, housing arrangements, employment guarantee schemes and credit schemes to help the workers as well as employers would be major steps towards bringing in security into this sector.

The different models discussed earlier would provide guidelines as to the pattern of reforms necessary to improve
conditions for the informal sector to operate simultaneously with the formal economy. The Indian pattern of industrialisation consists of large city based industrial nexus characterised by capital incentive manufacturing technologies along with a "dispersed pattern" which employes smaller, less capital intensive units covering rural and semi urban areas. There is also the small scale sector and the unregistered informal sector that have linkages, interactions and conflicting interests affecting all three across the board. Hence forming cooperatives is a good suggestion to strengthen the hands of the informal sector and must be taken up by voluntary non-government organisations. We, therefore, take a quick look at the nature and functions of the institutional role of voluntary organisations so that they can be harnessed to help the informal sector form cooperatives for efficient production and distribution.

8.18 Role of Voluntary Agencies:

(A) A Historical Perspective:

Mahatma Gandhi has said, 'the last man should be the first' in the development efforts of the country. The
voluntary organisations have gained success in reaching 'the last man'. Voluntary action has a long tradition in India. In the beginning most of it, however, was motivated by religious considerations. In the late fifties and early sixties of this century, however, a new kind of voluntary work is coming into vogue. In addition to education, health and the 'ameliorative work' different kinds of voluntary agencies have come into existence - (1) agencies involved in 'economic development' and (2) agencies involved in 'awareness raising'.

A voluntary organisation according to Beveridge is "one which whether its workers are paid or unpaid, is initiated and governed by its own members without external control." Voluntary organisations are not sponsored and are spontaneous in origin.

B) Main Goals:

In general, the main goals of voluntary organisations are as follows:

1) To help the people to help themselves in their endeavours or progress;

2. To stimulate and promote growth of the inherent potential among people for their development;
3. To initiate a process of participatory development;

4. To bring about social justice for the disadvantaged groups and create awareness about their rights and duties in our society;

5. To promote growth in social, political and economic aspect of life in rural areas.

C) Effectiveness:

Voluntary organisations have played a pivotal role in initiating process of development among under-developed communities. They also have been proved more effective than the government agencies in respect of work at grass-roots level. It is due to many factors like:

1. They gave foremost priority to the satisfaction of six basic needs i.e.:
   a) Safe drinking water
   b) Sufficient nutritious food
   c) Sufficient protective clothing
   d) Minimum secured shelter
   e) Sufficient life education
   f) Minimum sound health
2. The activities conducted by them include training crafts, tailoring, kitchen, gardening, village cleaning, sanitation programmes, keeping drinking well clean, preparation of manure beds, use of pesticides, education and recreational programmes for Balwadies etc.

3. Mahila Mandals really helped the rural people in understanding their problems and improved their style of functioning. The different programmes conducted by Mahila Mandals cater to the needs of the locality and are well received by the participants.

4. Voluntary organisations like Lions Club, Rotary Clubs etc. arrange different camps in the rural areas like medical camp, eye camp etc.

5. It is not often recognised that some of the most important ideas in different development fields have emerged from the voluntary agencies e.g.

   a) Environment movement in India—Chipko movement in Uttar Pradesh.

   b) The silent valley agitation in Kerala.

   c) Raj and Mable Arole's work in Jamkhed has produced an alternative, a low cost and appropriate model for the delivery of health services to India's rural masses.
d) The consumer movement is almost entirely voluntary in nature.

e) The Lok Adalat idea is an innovation of voluntary agencies.

f) SEWA's pioneering work in organising self-employed women and Salunka's 'Pani-Panchayat' are some of the innovative ideas with larger applicability.

6. Some voluntary organisations have also been observed to be celebrating national festivals like the Republic Day, the Independence Day and the like, so as to spread a national awareness and a sense of patriotism.

7. Some have organised excursions to places of interest and a few have future plans like providing library facilities, training of soap making, puppet making, pickle making so on.

The above list of activities are demonstrative of the watch-dog role, the corrective role, the change-agent role which are predominant in their list of priorities. The government's perception of their role however, does not seem to go beyond being the provider of relief, welfare and service. It is here that we wish to point out that whereas
the success and effectiveness of this organisation lies in its voluntariness, it must be harnessed in the manner which is suitable for collective action of a participatory nature. Access planning to involve people into the development process can also be accelerated by these voluntary agencies. So also the informal sector can more easily be guided by voluntary agencies since volition is the key factor in both the areas of reference. The agencies can also serve as links and channels between the organised /unorganised sectors provided some of their weaknesses are taken into account.

D. Weaknesses:

Although efforts of voluntary agencies are laudable, from the viewpoint of management control, resource allocation and autonomy, they are inflicted by some weaknesses.

1) Most agencies are headed by a strong and dominant personality without much sharing of powers and autonomy with other members. So they give the impression that these are one-man shows.

2) Overdependence on funding agencies and government rather than mobilising local resources and funds.
3) A general tendency to blame other agencies and authorities in case of failures, without attempting to re-organise their own approach and working methods.

4) Lack of inner strength and faith in voluntariness and the meaning of their work.

5) The internal weakness relating to the lack of an adequate system, procedures, financial and programmative control measures tend to provide fuel for attack and harassment from the state.

6) Some of the voluntary organisations have not framed their Constitutions. They do not keep proper books of account, and do not get them audited. They are unaware of the income-tax exemptions.

7) Most of these organisations even when working on similar issues with similar orientation, rarely co-operate. Most attempts at exchange are not working and have thus proved a failure.

E) Government and Voluntary Organisation:
   It was only after 1947 that voluntary organizations had anything to do with the government. The First Five year plan provided for Rs. 4 crores to voluntary
organisations. It was based on the assumption that voluntary organisations are capable of "dealing with social problems for which the state cannot provide in sufficient measures". While in the early years of planning the need and importance of voluntary organisations was not fully recognised, their services and cooperation was enlisted in areas where the same services were being provided by official agencies.

For the first time in the history of the planning process in India with the personal intervention of the prime minister Rs. 150 crores was allocated for the rural voluntary agencies for poverty alleviation programmes in the 7th plan that is 0.01 percent of the total 7th plan budget, and Government proposed to set up a National Council of Rural Voluntary Agencies.

Government officials at the village and the block level are invariably apathetic or hostile to voluntary efforts. They do not offer the necessary support that is needed for the implementation of these programmes and harass the office bearers in several ways.
Government and Voluntary Organisations can solve the problem of poverty, through activation of the links in the formal and informal sector as follows:

1. During 8th plan Government should allocate more resources to voluntary organisations. They can do a lot more if they get adequate financial support.

2. Instead of creating hindrances in the way of voluntary organisations, government and voluntary organisations should work hand in hand for the upliftment of the downtrodden.

3. During 8th plan Voluntary agencies should help government in reaching out to the poor but they should have their own basic schemes which touch the problems of poverty in an informal way.

4. A few of the voluntary groups look at Panchayats as political organisations and wish to keep away from them. This will not be the right course to adopt. Frequent consultations with Panchayat representatives will usher in a methodology of effective participation. Similarly links with cooperatives will greatly help in transferring the expertise, specially the management techniques adopted by voluntary groups.
5. There is a great need for co-ordination between the various voluntary organisations so as to ensure effective use of personnel and success in the collection of fund;

6. Instead of scattered efforts big voluntary agencies should adopt a village and should use their funds for the upliftment of that village.

7. Like the government, Voluntary agencies should also prepare their plan for the five year period and aim at achieving the targets set by them initially. Then they can really became a mighty force of social change in the villages.

8. There is an imperative need to initiate institutions for specialised training of voluntary workers. There is a need for constant exchange of ideas, materials and syllabus contents among the academic and professional training institutions in voluntary sector.
9. Government should provide accurate and comprehensive human resource data for planning and implementation of various projects.

10. Where money is scarce and the work is challenging new initiatives on voluntary basis can grow if there is a recognition for their work. In eighth plan government should give due recognition to the excellent work done by the voluntary organisation in terms of an award or public citation or a mention in government documents or a public honour.

8.19. CONCLUDING OBSERVATIONS:

This section has focussed on the current economic reforms which favour liberalisation and deregulation and has pointed out that both the formal and informal sectors will fare better because of a market friendly approach favouring a free play of market forces and entrepreneurship development. The informal sector in particular (if strengthened through the aid of voluntary organisations to form into Co-operatives) can play a better role in removing regional disparities since it is intrinsically woven with the overall economy.
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PANDIT JAWAHARLAL NEHRU LAID THE FOUNDATIONS OF MODERN INDIA. HIS VISION AND DETERMINATION HAVE LEFT A LASTING IMPRESSION ON EVERY FACET OF NATIONAL ENDEAVOUR SINCE INDEPENDENCE. IT IS DUE TO HIS INITIATIVE THAT INDIA NOW HAS A STRONG AND DIVERSIFIED INDUSTRIAL BASE AND IS A MAJOR INDUSTRIAL NATION OF THE WORLD. THE GOALS AND OBJECTIVES SET OUT FOR THE NATION BY PANDIT NEHRU ON THE EVE OF INDEPENDENCE, NAMELY, THE RAPID AGRICULTURAL AND INDUSTRIAL DEVELOPMENT OF OUR COUNTRY, RAPID EXPANSION OF OPPORTUNITIES FOR GAINFUL EMPLOYMENT, PROGRESS REDUCTION OF SOCIAL AND ECONOMIC DISPARITIES, REMOVAL OF POVERTY AND ATTAINMENT OF SELF-RELIANCE REMAIN AS VALID TODAY AS AT THE TIME PANDIT NEHRU FIRST SET THEM OUT BEFORE THE NATION. ANY INDUSTRIAL POLICY MUST CONTRIBUTE TO THE REALISATION OF THESE GOALS AND OBJECTIVES AT AN ACCELERATED PACE. THE PRESENT STATEMENT OF INDUSTRIAL POLICY IS INSPIRED BY THESE VERY CONCERNS, AND REPRESENTS A RENEWED INITIATIVES TOWARDS CONSOLIDATING THE GAINS OF NATIONAL RECONSTRUCTION AT THIS CRUCIAL STAGE.
2. In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasised 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 and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

3. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialisation as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.

4. The Industrial Policy Statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted.
5. The Industrial Policy Statement of 1977 laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries.

6. The Industrial Policy Statement of 1980 focussed attention on the need for promoting competition in the domestic market, technological upgradation and modernisation. The policy laid the foundation for an increasingly competitive export base and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasised the need for productivity to be the central concern in all economic and production activities.

7. These created a climate for rapid industrial growth in the country. Thus on the eve of the Seventh Five Year Plan, a broadbased infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items - raw materials, intermediates, finished goods - had been 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 had also been trained.
8. The Seventh Plan recognised the need to consolidate on these strength and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a large measure of autonomy. The technological and managerial modernisation of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan period.

9. Government is pledged to launching a reinvigorated 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.
10. While Government will continue to follow the policy of self-reliance there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed to development and utilisation of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.

11. Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, 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 industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

12. Government will provide enhanced support to the small scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.

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

15. The Government will ensure that the public sector plays its rightful role in the evolving socio-economic scenario of the country. Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance. In the 1950s and 1960s, the principal instrument 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 commands the bulk of the nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.

16. Government will fully protect the interests of labour, enhance their welfare and equip them in all 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. Worker's 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.

17. Government will continue to visualise new horizons. The major objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weakness that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international 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.

18. Government's policy will be continuity with change.

19. In pursuit of the above objectives, Government have decided to take a series of initiatives in respect of the policies relating to the following areas.
A package for the Small and Tiny Sectors of Industry is being announced separately.

A. INDUSTRIAL LICENSING POLICY

20. Industrial Licensing is governed by the Industries (Development & Regulation) Act, 1951. The Industrial Policy Resolution of 1956 identified the following three categories of industries: those that would be permitted for development through private enterprise with or without State participation, and those in which investment initiatives would ordinarily emanate from private entrepreneurs. 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 liberalised from time to time. A full realisation of the industrial potential of the country calls for a continuation of this process of change.
21. In order to achieve the objectives of the strategy for the industrial sector for the 1990s and beyond it is necessary to make a number of changes in the system of industrial approvals. Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgement. The attainment of technological dynamism and international competitiveness requires that enterprises must be enabled to swiftly respond to fast changing external conditions that have become characteristic of today's industrial world. Government policy and procedures must be geared to assisting entrepreneurs in their efforts. This can be done only if the role played by the Government were to be changed from that of only exercising control to one of providing help and guidance by making essential procedures fully transparent and by eliminating delays.

22. The winds of change have been with us for some time. The industrial licensing system has been gradually moving away from the concept of capacity licensing. The system of reservations for public sector undertakings
has been evolving towards an ethos of greater flexibility and private sector enterprises has been gradually allowed to enter into many of these areas on a case by case basis. Further impetus must be provided to these changes which alone can push this country towards the attainment of its entrepreneurial and industrial potential. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, while at the same time, ensuring that overriding national interests are not jeopardised.

23) In the above context, industrial licensing will henceforth be abolished for all industries, except those specified, irrespective of levels of investment. These specified industries (Annex-II), will continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to the many dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system. As a whole the Indian economy will benefit by becoming more competitive, more efficient and modern and will take its rightful place in the world of industrial progress.
B. FOREIGN INVESTMENT

24. While freeing Indian industry from official controls, opportunities for promoting foreign investment in India should also be fully exploited. In view of the significant development of India's industrial economy in the last 40 years, the general resilience, size and level of sophistication achieved, and the significant changes that have also taken place in the world industrial economy, the relationship between domestic and foreign industry needs to be much more dynamic than it has been in the past in terms of both technology and investment. Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic cooperation marked by mobility of capital. The Government will therefore welcome foreign investment, which is in the interest of the country's industrial development.

25. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment upto 51% foreign
equity in such industries. There shall be no bottleneck of any kind in this process. This group of industries has generally been known as the "Appendix I industries" and are areas in which FERA companies have already been allowed to invest on a discretionary basis. This change will go a long way in making Indian policy on foreign investment transparent. Such a framework will make it attractive for companies abroad to invest in India.

26. Promotion of exports of Indian products calls for a systematic exploration of world markets possible only through intensive and highly professional marketing activities. To the extent that expertise of this nature is not well developed so far in India, Government will encourage foreign trading companies to assist us in our export activities. Attraction of substantial investment and access to high technology, often closely held, and to world markets, involves interaction with some of the world's largest international manufacturing and marketing firms. The Government will appoint a special board to negotiate with such firms so that we can engage in purposive negotiation with such large firms, and provide the avenues for large investments in the development of industries and technology in the national interest.
C. FOREIGN TECHNOLOGY AGREEMENTS

27. There is a great need for promoting an industrial environment where the acquisition of technological capability receives priority. In the fast changing world of technology the relationship between the suppliers and users of technology must be a continuous one. Such a relationship becomes difficult to achieve when the approval process includes unnecessary governmental interference on a case to case basis involving endemic delays and fostering uncertainty. The Indian entrepreneur has now come of age so that he no longer needs such bureaucratic clearances of his commercial technology relationships with foreign technology suppliers. Indian industry can scarcely be competitive with the rest of the world if it is to operate within such a regulatory environment.

28. With a view to injecting the desired level of technological dynamism in Indian industry, Government will provide automatic approval for technology agreements related to high priority industries within specified parameters. 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 judgement. The predictability and independence of action that this measure is providing to Indian industry will induce them to develop indigenous competence for the efficient absorption of foreign technology. Greater competitive pressure will also induce our industry to invest much more in research and development than they have been doing in the past. In order to help this process, the hiring of foreign technicians and foreign testing of indigenously developed technologies, will also not require prior clearance as prescribed so far, individually or as a part of industrial or investment approvals.

D. PUBLIC SECTOR POLICY

29. The public sector has been central to our philosophy of development. In the pursuit of our development objectives, public ownership and control in critical sectors of the economy has played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.
30. The Industrial Policy Resolution of 1956 gave the public sector a strategic role in the economy. Massive investments have been made over the past four decades to build a public sector which has a commanding role in the economy. Today dey sectors of the economy are dominated by mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.

31. After the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems have begun to manifest themselves in many of the public enterprises. Serious problems are observed in the insufficient growth in productivity, poor project management, overmanning, lack of continuous technological upgradation, and inadequate attention to R&D and human resource development. In addition, 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 original concept of the public sector has also
undergone considerable dilution. The most striking example is the takeover 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. Another category of public enterprises, which does not fit into the original idea of the public sector being at the commanding heights of the economy, is the plethora of public enterprises which are in the consumer goods and services sectors.

32. It is time therefore that the Government adopt a new approach to public enterprises. There must be a greater commitment to the support of public enterprises which are essential for the operation of the industrial economy. Measures must be taken to make these enterprises more growth oriented and technically dynamic. Units which may be faltering at present but are potentially viable must be restructured and given a new lease 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 such as defence equipment.

At the same time the public sector will not be barred from entering areas not specifically reserved for it.

33. In view of these considerations, Government will review the existing portfolio of public investments with greater realism. This review will be in respect of industries based on low technology, small scale and non-strategic areas, inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector has developed sufficient expertise and resources.

34. Government will strengthen those public 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 undertaking.
Competition will also be induced in these areas by inviting private sector participation. In the case of selected enterprises, part of Government holdings in the equity share of capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest.

E. MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT (MRTP ACT)

35. The principal objectives sought to be achieved through the MRTP Act are as follows :-

   i) Prevention of concentration of economic power to the common detriment, control of monopolies, and
   ii) Prohibition of monopolistic and restrictive and unfair trade practices.

36. The MRTP Act became effective in 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 expansion. This process of change was given a new momentum in 1985 by an increase of threshold limit of assets.
37 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 pre-entry scrutiny of investment decisions by so called MRTP companies will no longer be required. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly houses to obtain prior approval of Central Government for expansion, establishment of new undertaking, merger, amalgamation and takeover and appointment of certain directors. The 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 governmental approval for expansion of present undertakings and establishment of new undertakings. The provisions relating to merger, amalgamation, and takeover will also be repeated. Similarly, the provisions regarding restrictions on acquisition of and transfer of shares will be appropriately incorporated in the Companies Act.
38. 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.

F. DECISIONS OF GOVERNMENT

39 In view of the considerations outlined above Government have decided to take a series of measures to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control. These measures complement the other series of measures being taken by Government in the areas of trade policy, exchange rate management, fiscal policy, financial sector reform and overall macro economic management.

A. INDUSTRIAL LICENSING POLICY

i) Industrial Licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption (list attached as Annex II).
Industries reserved for the small scale sector will continue to be so reserved.

ii) Areas where security and strategic concerns predominate, will continue to be reserved for the public sector. (list attached as Annex I).

iii) In projects where imported capital goods are required, automatic clearance will be given
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% of total value (net of taxes) of plant and equipment, up to a maximum value of Rs. 2 crore. In view of the current difficult foreign exchange situation, this scheme (i.e. (iii) b) will come into force from April, 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 1 million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with
population greater than 1 million, industries other than those of a non-polluting nature such as electronics, computer software and printing will be located outside 25 kms. of the periphery, except in prior designated industrial areas.

A flexible location policy would be adopted in respect of such cities (with population greater than 1 million) which require industrial re-generation.

Zoning and Land Use Regulation and Environmental legislation will continue to regulate industrial location.

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) The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them.
vi) Existing units will be provided a new broad banding facility to enable them to produce any article without additional investment.

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

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

Procedural consequences

ix) All existing registration schemes (Delicenced Registration, Exempted industries Registration, DGTD registration) will be abolished.

x) Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.

xi) The lists at Annex II and Annex III will be notified in the Indian Trade Classification (Harmonised System).
B. FOREIGN INVESTMENT

i) Approval will be given for direct foreign investment upto 51 percent foreign equity in high priority industries (Annex III). There shall be no bottlenecks of any kind of this process. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods. Consequential amendments to the Foreign Exchange Regulation Act (1973) shall be carried out.

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 would be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are balanced by export earnings over a period of time.

iii) Other foreign equity proposals, including proposals involving 51% foreign equity which do not meet the criteria under (i) above, will continue to need prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.
iv) To provide access to international markets, majority foreign equity holding up to 51% equity will be allowed for trading companies primarily engaged in export activities. While the thrust would be on export activities, such trading houses shall be at par with domestic trading and export houses in accordance with the Import-Export Policy.

v) A special Empowered Board would be constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas. This would be a special programme to attract substantial investment that would provide access to high technology and world markets. The investment programme of such firms would be considered in totality, free from pre-determined parameters or procedures.

C. FOREIGN TECHNOLOGY AGREEMENTS

i) Automatic permission will be given for foreign technology agreements in high priority industries (Annex III) up to a lumpsum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% of sales over a 10 year period from date of agreement or 7 years from commencement of production. The prescribed royalty rates are net of taxes and will be calculated according to standard procedures.
ii) In respect of industries other than those in Annex III, automatic permission will be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

iii) All other proposals will need specific approval under the general procedures in force.

iv) No permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies. Payment may be made from blanket permits or free foreign exchange according to RBI guidelines.

D. PUBLIC SECTOR

i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.
ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, 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 to protect the interests of workers likely to be affected by such rehabilitation packages.

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

iv) Boards of public sector companies would be made more professional and given greater powers.

v) There will be a greater thrust on performance improvement through the Memoranda of Understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.
vi) To facilitate a fuller discussion in performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focussing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

E. MRTP ACT

i) The MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of Central Government for establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover and appointment of Directors under certain circumstances.

ii) 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 suo moto or on complaints received from individual consumer or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

iii) Necessary comprehensive amendments will be made in the MRTP Act in this regard and for enabling the MRTP Commission to exercise punitive and compensatory powers.
ANNEX - 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. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

6. Mining of copper, lead, zinc, tin, molybdenum and wolfram.


8. Railway transport.
ANNEX - 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. Animals fats and oils.
6. Cigars and cigarettes of tobacco and manufactured tobacco substitute.
8. Plywood, decorative veneers, 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. Motor cars.
12. Paper and Newsprint except bagasse-based units.
13. Electronic aerospace and defence equipment; All types.
14. Industrial explosives, including detonating fuse, safety fuse, gun powder, nitrocellulose and matches.
15. Hazardous chemicals.
16. Drugs and Pharmaceuticals (according to Drug Policy).
17. Entertainment Electronics (VCR's Colour TVs, C.D. Players Tape Recorders).
18. White Goods (Domestic Refrigerators, Domestic Dishwashing machines, Programmable Domestic Washing Machines, Microwave ovens, Aircoinditioners).

NOTE: The compulsory licensing provisions would not apply in respect of the small-scale units taking up the manufacture of any of the above items reserved for exclusive manufacture in small-scale sector.

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LIST OF INDUSTRIES FOR AUTOMATIC APPROVAL OF FOREIGN
TECHNOLOGY AGREEMENTS AND FOR 51 % FOREIGN EQUITY APPROVALS.

1. Metallurgical 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 therefor.
   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 equipoment.
iv) X-ray equipment
v) Electronic equipment, components including subscribers and telecommunication equipments.
vi) Component 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 and
v) Brake system for railway stock and locomotives.

6. Industrial Machinery.
   i) Industrial machinery and equipment

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

8. Agricultural Machinery.
   i) Tractors.
   ii) Self-propelled Harvestor Combines.
   iii) Rice transplanters.

9. Earth Moving Machinery.
   i) Earth moving machinery and construction machinery
      and components thereof.

10. Industrial Instruments.
    i) 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 petrochemicals.
   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) Synthetics detergents.
   x) Miscellaneous chemicals (for industrial use only).
      a) Catalysts and catalyst supports.
      b) Photographic chemicals.
      c) Rubber chemicals
      d) Polyols
      e) Isocyanates, urethanes, 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, Carbon-dioxide 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 Drugs Policy.

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

16. 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) H. T. 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


21. Carbon and Carbon Products
   i) Graphite electrodes and anodes
   ii) Impervious graphite blocks 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 30,000 or more impressions per hour.
   ii) Photo composing/type setting machines.
   iii) Multi-colour sheet-fed off-set printing machines of sizes of 18" X 25" and above,
iv) High speed rotograture printing machines having output of 30,000 or more impressions per hour.

25. Welding Electrodes other than those for Welding Mild Steel.

26. Industrial Synthetic Diamonds.

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


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 hybrid seeds and synthetic seed and

    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.
A. SMALL AND TINY ENTERPRISES

1.0 INTRODUCTION

1.1. The Small Scale Industries Sector has 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 35 percent of the gross value of output in the manufacturing sector and over 40 percent of the total exports from the country. It also provided employment opportunities to around 12 million people.

1.2. The primary objective of the Small Scale Industrial Policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts would be made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young enterpreneurs.
1.3 All statues, regulations and procedures would be reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interest of the small and village enterprises.

2.0 TINY ENTERPRISES

2.1 Government have already announced increase in the investment limits in plant and machinery of small scale industries, ancillary units and export-oriented units to Rs. 60 Lakhs, and 75 lakhs and 75 lakhs respectively. Such limit on respect of "TINY" ENTERPRISES would now be increased from the present Rs. 2 lakhs to Rs. 5 lakhs, irrespective of location of the unit.

2.2 Service sub-sector is a fast growing area and there is need to provide support to it in view of its recognised potential for generating employment. Hence all industry-related service and business enterprises, irrespective of their location, would be recognised as small scale industries and their investment ceilings would correspond to those of Tiny enterprises.

2.3 A separate package for the promotion of Tiny Enterprises is now being introduced. This constitutes the main thrust of Government's new policy.
2.4 While the small scale sector (other than 'Tiny Enterprises') would be mainly entitled to one-time benefits (like preference in land allocation/power connection, access to facilities for skill/technology upgradation), the 'Tiny Enterprises' would 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.

2.5 It has also been decided to widen the scope of the National Equity Fund Scheme to cover projects upto Rs. 10 lakhs for equity support (upto 15 per cent). Single Window Loan Scheme has also been enlarged to cover projects up to Rs. 20 lakhs with working capital margin upto Rs. 10 lakhs. Composite loans under Single Window Scheme, now available only through States Financial Corporations (SFCs) and twin function State Small Industries Development Corporation (SSIDCs), would also be channelised through commercial banks. This would facilitate access to a larger number of entrepreneurs.

3.0 FINANCIAL SUPPORT MEASURES.

3.1 Inadequate access to credit - both short term and long term remains a perennial problem facing the small scale sector. Emphasis would henceforth shift from
subsidiary/cheap credit, except for specified target groups, and efforts would 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 genuine credit needs of the small scale sector are fully met.

3.2 To provide access to the capital market and to encourage modernisation 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 ancillaryisation & Sub-contracting, leading to expansion of employment opportunities.

3.3 Regulatory provisions relating to the management of private limited companies are being liberalised. 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.

3.4 A beginning has been made towards solving the problem of delayed payments to small industries by setting up of 'factoring' services through Small industries Development Bank of India (SIDB). 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.

4.0 INFRASTRUCTURAL FACILITIES

4.1 To facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new Scheme of integrated infrastructural Development (including Technological Back-up Services) for Small Scale Industries would be implemented with the active participation of State Governments and financial institutions. A beginning in this direction will be made this year itself.

4.2 A Technology Development cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) which would provide technology inputs to improve productivity and competitiveness of the products of the small scale sector. The TDC would coordinate the activities of the Tool Rooms, Process-cum-Product Development Centres (PPDCs), existing as well as to be established under SIDO, and would also interact with the other industrial research and development organisations to achieve its objectives.
4.3 Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small scale sector, particularly the tiny sub-sector. Policies would be so designed that they do not militate against entry of new units. Based on the capacity needs, Tiny/Small Scale units would be given priority in allocation of indigenous raw materials.

4.4 A proper and adequate arrangement for delivery of total package of incentives and services at the District level will be evolved and implemented.

5.0 MARKETING AND EXPORTS

5.1 In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Mass consumption labour intensive products are predominantly being marketed by the organised sector. The tiny/small scale sector will be enabled to have a significant share of such markets. In addition to the existing support mechanism, market promotion would be undertaken through cooperative/public sector institutions, other specialised/professional marketing agencies and consortia approach, backed up by such incentives, as considered necessary.
5.2 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.

5.3 Government recognises the need to widen and deepen complementarity in production programmes of large/medium and small industrial sectors. Parts, components, sub-assemblies, etc. required by large public/private sector undertakings would be encouraged for production in a techno-economically viable manner through small scale ancillary units. Industry associations would be encouraged to establish sub-contracting exchanges, in addition to strengthening the existing ones under the SIDO. Emphasis would also be laid on promotion of a viable and competitive 'Component' market.

5.4 Though the Small Scale Sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognised as the nodal agency to support the small scale industries in export promotion. An Export Development Centre would be set up in SIDO to serve the small scale industries through its network of field offices to further augment export activities of this sector.
6.0 MODERNISATION, TECHNOLOGICAL AND QUALITY UPGRADATION

6.1 A greater degree of awareness to produce goods and services conforming to national and international standards would be created among the small scale sector.

6.2 Industry Associations would be encouraged and supported to establish quality counselling and common testing facilities. Technology Information Centres to provide updated knowledge on technology and markets would be established.

6.3 Where non-conformity with quality and standards involves risk to human life and public health, compulsory quality control would be enforced.

6.4 A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Specific Industries in large concentrations/clusters would be identified for studies in conjunction with SIDBI and other banks. Such studies will establish commercial viability of modernisation prescriptions, and financial support would be provided for modernisation of these industries on a priority basis.
6.5 Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges will serve as Technological Information, Design and Development Centres in their respective command areas.

7.0 PROMOTION OF ENTREPRENEURSHIP

7.1 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 Programmes (EDP). Industry Associations would also be encouraged to participate in this venture effectively.

7.2 EDP would be built into the curricula of vocational and other degree level courses.

7.3 Women entrepreneurs will receive support through special training programmes. Definition of "Women Enterprises" would be simplified. The present stipulation regarding employment of majority of women workers would be dispensed with and units in which women entrepreneurs have a majority shareholding and management control, would be defined as "Women Enterprises".
7.4 Additional employment opportunities would be generated through training of multi-disciplinary 'barefoot' managers to suit the special requirements of the small scale sector.

8.0. SIMPLIFICATION OF RULES AND PROCEDURES.

8.1 The persistent complaint of small scale units 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.

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

B. VILLAGE INDUSTRIES.

9.0 HANDLOOM SECTOR.

9.1 Handloom sector contributes about 30 per cent of the total textile production in the country. It is the policy of Government to promote handloom to sustain employment in rural areas and to improve the quality of life for handloom weavers.
9.2 Schemes for the handloom sector will be redesigned keeping in mind the local and regional needs. Constraints of coverage will be removed so as to include bulk of the weavers who are outside the corporate/ cooperative fold.

9.3 Existing schemes will be re-drawn and suitably revised under 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 drawn up.

(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 a better management system in the existing state agencies.

9.4 Janta cloth scheme which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the VIII Plan and replaced by the omnibus project package scheme under which substantial funds will be provided for modernisation of looms, training, provision of better designs, provision of better dyes and chemicals and marketing assistance.
9.5 A vastly expanded role for the National Handloom Development Corporation (NHDC) is envisaged. NHDC would be the nodal agency for increasing the supply of hank yarn and of dyes and chemicals. Spinning capacity in the co-operative sector will be increased. National Co-operative Development Corporation will provide more assistance for this in the form of Seed Money, both for cotton growers spinning mills and weavers spinning mills.

9.6 For improving marketing of handloom products, a more intensive implementation of schemes for design and product improvement by national level publicity, exhibitions, and design exercise will be undertaken. A special scheme will be drawn up to graduate the handloom production, which is often of low value items, to high value products suitable for export markets. This will be done by better design inputs, ungradation of technology, diversion of weavers from cotton to silk and tassar weaving. Special projects for modernisation of looms for products suitable for export markets will be drawn up.

10.0 HANDICRAFTS SECTOR.

10.1 The key areas in handicrafts that could contribute towards a faster pace of rural industrialisation are production and marketing. Schemes for training and design development and for production and marketing assistance will be given encouragement.
10.2 Considering the importance of this sector from the point of view of employment and exports, it is proposed to provide an integrated development thrust to this sector with a view to enlarging the production base, thus enhancing the opportunities for employment and income through crafts as an economic activity and to giving it necessary inputs for quality improvement and effective marketing support both internal and overseas. Efforts will be made not only to preserve the traditional richness of the crafts but to engage the hereditary skills of the craftspersons to suit modern requirements.

10.3 Emphasis will be given to the following:-

-- Extension of services like supply of raw materials, design and technical guidance, market support, training and procuring of related materials/inputs in an integrated and area-based manner through the setting up of craft development centres in identified clusters of villages.

-- Market development support in the form of a package of assistance through expansion of marketing infrastructure, exhibitions, publicity, etc., through
Central and State Handicrafts Corporations, voluntary organisations and support to direct marketing activity by craftspersons.

Expansion of training activities by greater involvement of State Handicrafts Development Corporations, Co-operatives and voluntary organisations.

Measures to sustain an increased exports of handicrafts through new marketing channels like trading companies, departmental stores, etc.

11.0 OTHER VILLAGE INDUSTRIES

11.1 Government recognise the need to enhance the spread of rural and cottage industries towards stepping up non-farm employment opportunities.

11.2 The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards will be expanded and the organisations strengthened to discharge their responsibilities more effectively.
11.3 There will be greater emphasis on improving the quality and marketability of the products pari passu with consumer preferences instead of merely depending on rebates and subsidies.

11.4 While the plan allocation for rural industries will be augmented, effective steps will also be taken to ensure better flow of credit from the financial institutions and a more coordinated and optimal utilisation of different development schemes and agencies operating in the rural sector. Bankability of projects undertaken in this sector would be stressed.

11.5 The programmes of intensive development of KVI through area approach with tie-up with DRDA, TRYSEM and ongoing developmental programmes relating to weaker sections like Scheduled Castes, Scheduled Tribes and Women would be extended throughout the country.

11.6 The traditional village industries would be given greater thrust. Involvement of traditional and reputed voluntary organisations will be encouraged.
11.7 Agro processing and food processing Industries in KVI sector using appropriate technologies would be promoted with a view to utilise locally available agricultural produce and promote employment/resource generation in the countryside.

11.8 Functional industrial estates would be established in areas with concentration of agricultural/horticultural produce.

11.9 R&D in KVI sector would be strengthened through greater linkages with CSIR and other research institutions in the areas of production, finishing/packaging, processes and development of new tools and implements.

11.10 The training programmes would be upgraded and augmented to cover the expanded list of industries under the purview of the KVIC.
THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES (AMENDMENT) (ORDINANCE, 1991)

The Ordinance seeks to amend the MRTP Act, 1969 and the Companies Act, 1956. The salient features of the Ordinance are as under:

1) The MRTP Act has been re-structured and pre-entry restrictions have been removed with regard to prior approval of the Government for establishment of a new undertaking, expansion, amalgamation, merger, take-over and appointment of Directors in certain circumstances as also registration of undertakings, under Sections 20 to 26 of Part-A of Chapter-III.

2) In Chapter - III relating to concentration of economic power, Sections 27, 27A and 27B have been retained relating to the power of the Government to direct division of an undertaking and severance of inter-connection between undertakings, if it is of the opinion that the working of an undertaking in prejudicial to the public interest, or has led, or isleading or is likely to lead to the adoption of any monopolistic or restrictive trade practices. Since the concept of MRTP undertakings is being removed, these provisions will now be applicable to all undertakings. At present, the Government can
make a reference to the MRTP Commission under these provisions. As per Ordinance, the Commission may make an enquiry *suo moto* or on complaint from any trade association or consumer or a registered consumers' association or from any State Government.

3) The provisions of Chapter III-A (Sections 30-A to 30-G) regarding restriction on acquisition or transfer of shares have been re-transferred to the Companies Act, 1956 as Sections 108-A to 108-I. These provisions will apply in cases where the acquirer or transferor of shares is a dominant undertaking, as defined under the MRTP Act.

4) Additional powers have been given to the MRTP Commission to require Director - General to make a preliminary investigation of complaints of all types involving monopolistic, restrictive or unfair trade practices. Similarly, Director General has been empowered to make an application to the Commission regarding monopolistic trade practices.

5) Deterrent penal punishment has been provided under sections 48C and 50 for contravention of the Order passed by the Commission and the Central Government. At the same time, a new Section 53A has been incorporated empowering the Commission to compound offences relating to contravention of orders passed by the Commission either before of after launching prosecution.
6) The definition of "goods" has been enlarged by including issue of shares before allotment. The scope of the definition of "service" also covers chit fund and real estate.

7) The definition of "unfair trade practice" under Section 36 A has been enlarged and includes false representation in respect of quantity of goods also. It is now not necessary to establish loss or injury to the consumer.

8) Section 55 has been amended to provide for appeal before the Supreme court against temporary injunction granted by the Commission under Section 12-A.

Press Note dated 27th September, 1991 issued by PIB.

The President has promulgated an Ordinance amending the MRTP Act, 1969. 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 thrust of the Industrial Policy has shifted to controlling and regulating the monopolistic, restrictive and unfair trade practices rather than making it necessary for certain undertakings to obtain prior approval of the Central Government for expansion, establishment of new undertakings, merger, amalgamation, take-over and
appointment of Directors. It has been the experience of
the Government that pre-entry restriction under the MRTP
Act on the investment decision of the corporate sector
has outlived its utility and has become a hindrance to
the speedy implementation of industrial projects. By
eliminating the requirement of time-consuming procedures
and prior approval of the Government, it would be
possible for all productive sections of the society to
participate in efforts for maximisation of production.
The MRTP Act has, therefore, been re-structured by
omitting the provisions of Section 20 to 26 and
transferring the provisions contained in Chapter III-A
regarding restrictions on acquisition and transfer of
shares to the Companies Act 1856. The Ordinance seeks to
enlarge the scope of inquiry by the MRTP Commission with
a view to taking effective steps to curb and regulate
monopolistic, restrictive and unfair trade practices
which are prejudicial to public interest and also to
provide for deterrent punishment for contravention of the
orders passed by the MRTP Commission and by the Central
Government.

2) With the deletion of provisions relating to
pre-entry restrictions, all the pending applications under
Section 21, 22 and 23 of the MRTP Act would be treated
as closed, and these undertakings now do not require any
permission under the MRTP Act and can proceed with their
projects subject to the provisions of any other law.
3) The provision of Chapter III-A relating to acquisition or transfer of shares of MRTP undertaking have been deleted from the MRTP Act. Simultaneously, new provisions have been introduced in the Companies Act as Section 108-A to 108-I. However, these sections will now only cover acquisition and transfer of shares related to dominant undertaking only. In view of this pending applications relating to dominant undertakings under section 30-B and 30-C of the MRTP Act will only be further processed under the new sections of the Companies Act. All other pending applications under Sections 30-B and 30-C of the MRTP Act will be treated as closed.

4) The provisions relating to registration under Section 26 of the MRTP Act stand deleted with the issue of the Ordinance and, therefore, now no undertaking will be required to be registered as an MRTP undertaking under this Act.

5) Simultaneously, Notification is being issued under Section 3 of the MRTP Act, 1969, directing that the said Act shall apply to all the undertakings and financial institutions specified therein except trade unions and associations of workmen under clause (d) thereof. In the context of changes in the MRTP Act and the new Industrial Policy, there was no longer any justification for continuing the exemption presently available to Government Companies, Co-operative
Societies etc. especially in view of the removal of pre-entry restrictions under the Act. The Government has also received a number of representations from various organisations to bring the public sector undertakings, co-operative societies, etc. within the purview of the MRTP Act, 1969. The Committee on Petitions (8th Lok Sabha) also urged the Government to issue a Notification under Section 3 of the Act. By issue of this Notification, there is now no distinction in treatment between public sector undertakings and private sector companies and they will be subject to the same discipline, as the private sector companies, in the matter of monopolistic, restrictive and unfair trade practices. However, the provisions of the MRTP Act will not apply to undertakings owned or controlled by a Government company, or the Government, engaged in the production of arms and ammunition and allied items of defence equipment. Defence aircraft and warships, atomic energy, minerals specified in the Schedule to the Atomic Energy (Control of production and use), Order, 1953 and industrial units under the Currency and Coinage Division, Ministry of Finance, Department of Economic Affairs.

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