CHAPTER ONE

INTRODUCTION
This is a study of appraisal of industrial projects chosen by the Haryana State Industrial Development Corporation (HSIDC). The social cost-benefit analysis forms the theoretical framework of the study. The aim is to understand the social cost-benefit implications of the projects selected by HSIDC.

The appraisal involves analysis of costs and benefits of proposed projects with a view to optimally allocate the scarce resources among alternative investment opportunities. It also evaluates the extent to which each project contributes to achieve national development objectives viz., rapid industrial growth, self-reliance, employment generation, balanced regional development and income redistribution. The logic behind the appraisal criterion is to select those projects for which the country's resources are most appropriate.

The commercial profitability analysis as a tool used for public investment decision-making in developing economies has been widely criticised. See for example, Eckstein (1957), Little (1961), Chakrabarty (1964), Balassa (1965), Bruno (1965), Marglin (1967), Balassa and Schydowsky (1968), Little and Mirrlees (1968), Schydowsky (1968), Bacha and Taylor (1971), Balassa (1971), Dave and Bhatt (1971), Sau (1971), Acharya (1972), Herberger (1972), Joshi (1972), Lal (1972), Mishan (1972), Rudra (1972), UNIDO (1972), Jalan (1973), Balassa (1974), Batra and Guisinger
(1975), Schneider (1975), Squire and Vander Tak (1975),
Balassa (1976), Bruce (1976), Layard (1976), Little and
Scott (1976), Mishra and Beyer (1976), Balassa (1977), Ray
(1977), Dasgupta and Pearce (1978), Helmers (1978), Imboden
(1978), Irwin(1978), Kohli (1978), Matto (1978), Pursell
(1978), Sen (1978), Srinivasan and Bhagwati (1978), UNIDO
(1978), Amin (1979), Shaner (1979), Murty (1980), UNIDO
(1982), Rajaraman (1982), Sinha and Bhatia (1982), Warr
(1984), Dasgupta and Murty (1985), Dinwiddy and Teal (1985),
and Tower and Pursell (1987). The existence of market
imperfections, concern for savings and redistribution of
income, merit wants, and external effects of project
necessitate the use of social cost-benefit analysis
technique for public investment decision making.

1.1 NEED AND SCOPE OF THE STUDY

Haryana is a small state in northern India. It is
surrounded by the states of Punjab, Himachal Pradesh,
Rajasthan and Uttar Pradesh. Haryana attained its present
identity on 1st November 1966. Spread over 44,212 square
kilometers (1.3% of the total area of the country), it has a
population of 12.9 million (1.9% of the country's
population) according to the 1981 census. Its population
density is 292 per square kilometer as against 221 of the country. The literacy rate is 36.14% as against 36.23% of the country. About 78% of the State's population lives in rural areas.

The per capita income of Haryana has risen from Rs. 2363 in 1980-81 to Rs. 4214 in 1987-88. This figure is much higher than the all India average Rs. 3284.20, making Haryana one of the most progressive of the Indian states.

At the time its inception, there was little industrial activity in Haryana. Today, however, there is a perceptible change in the industrial scenario. The medium and large scale units have increased by about 248.15% over 1966-89 (from 162 units in 1966 to 402 units in 1989). During 1966-89 fixed investment, employment potential and production have gone up to Rs. 2439.75 crores, 1.26 lakhs and Rs. 2387.37 crores respectively. The index of industrial production in Haryana (Base 1970-71=100) rose from 119.97 in 1971-72 to 364.04 in 1986-87.

The Haryana State Industrial Development Corporation Ltd. (HSIDC) was established in 1967 for promoting medium and large industries with a view to create a climate for rapid industrialisation. Today, it is acting as an institutional entrepreneur as well as a financial institution.

From 1967-68 to 1988-89, HSIDC promoted 42 projects, seven in the public sector and 35 in the
joint/assisted sectors. Of these projects, 14 had started commercial production by December 1988, and 28 were at the implementation stage. HSIDC had made an investment of Rs.862.65 lakhs and Rs. 1216.52 lakhs have yet to be invested in these projects.

Besides promoting projects, HSIDC offers term loans to technically feasible and economically viable, medium scale industrial projects under Normal and Equipment Refinance Scheme of the Industrial Development Bank of India (IDBI). HSIDC offers assistance for seed capital to help create a new generation of entrepreneurs who have the requisite traits but limited financial resources to promote the industrial ventures (Details of Schemes are given in Annexure I). From 1978-79 to 1988-89, HSIDC had disbursed Rs.3582.75 lakhs to 65 projects under the Normal and Equipment Refinance Scheme. Out of 65 projects assisted by HSIDC, 54 are in production, 7 under implementation and 4 units have been either closed or not implemented. A total investment of Rs.15883.01 lakhs had been made in these projects. The employment potential of these projects is 13363 persons.

Based on the best fit time trends for the data for period 1978-79 to 1988-89 a detailed trend analysis has been made of certain performance criteria, namely total assistance sanctioned, total assistance disbursed, assistance sanctioned to backward area, assistance disbursed
to backward area, total investment made, total employment potential, total expected sales, investment made in backward area, employment potential in backward area and expected sales in backward area. The forecast for these criterion variables have been made for 1989-90 and 1990-91 on the basis of these trend models. The results are presented in Annexure II.

The medium and large scale industrial projects entail huge investment of funds and expected benefits are spread over a future period of time. HSIDC has till now financed following five kinds of projects: i) those of national importance; ii) ones which provide essential goods and services to the common man; iii) export oriented ones; iv) where product results in import substitution; and, v) the ones being set up in backward areas.

In order to successfully launch the projects and achieve desired goals, project appraisal exercise has to be undertaken carefully. Given the broad socio-economic objectives for which HSIDC stands, the theoretical framework for appraisal has to be that of social cost benefit analysis.

Therefore, it will be pertinent to judge the social cost-benefit implications of project choice by HSIDC.

1.2 OBJECTIVES OF THE STUDY

a) To trace the developments in the methodology of project appraisal for developing countries.
b) To examine the project appraisal process in HSIDC, Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI) and Industrial Finance Corporation of India (IFCI).

c) To carry out social cost-benefit analysis of HSIDC projects.

d) To derive social cost-benefit implications of project choice by HSIDC.

1.3 ORGANIZATION OF THE STUDY

The study is organised in seven chapters.

The present chapter defines the concept of project appraisal and the need for social cost-benefit analysis. It describes need, scope, objectives and limitations of the study.

With a view to develop an appropriate methodology for this study and determine the need for the same, the literature on social cost-benefit analysis has been reviewed in Chapter Two. This chapter traces the developments in the methodology of social cost-benefit analysis.

The objective-wise methodology is given in Chapter Three.

The project appraisal process in development financial institutions has been examined in Chapter Four. It covers the project appraisal criteria of HSIDC, ICICI, IDBI, and IFCI.
A detailed social cost-benefit analysis of HSIDC projects is carried out in Chapter Five. It presents the contribution of each project towards the objective of aggregate consumption and redistribution. The analytic framework is based on sensitivity. It also presents the switching values of social rate of discount of HSIDC projects.

Chapter Six depicts the social cost-benefit implications of project choice by HSIDC. Besides, it examines the minimum premium to be given to the redistribution benefits of HSIDC projects to become socially desirable.

Chapter Seven lists the major findings and conclusions that emerge from the study.

1.4 LIMITATIONS OF THE STUDY

Nineteen projects of HSIDC have been selected for social cost-benefit analysis, keeping in mind the availability of detailed data. The sample projects represent various industrial activities, sectors and area. The sample size is 17.76% of total population size. Because of inadequate data availability [see for example ICICI (1975) p.16], random sampling procedure could not be used for selecting the projects. Therefore, no formal tool of statistical inference has been used for generalizations.

A four stage analysis for appraisal of industrial projects, as suggested in the UNIDO Guidelines (1972), has
been adopted. The third stage of the analysis requires estimation of marginal propensity to save, and benefits flowing to different groups of gainers viz., the workers, the Government and the private sector. However, it has not been possible to estimate the marginal propensity to save of different groups. Therefore, aggregate net present value of investment for the society as a whole has been calculated.

The UNIDO Guidelines takes into account the multiplier effect of income going to the backward area. The study has not been able to estimate the multiplier effect. To this extent, the redistribution benefits are rather conservatively estimated.